KEYBRIDGE® CAPITAL LIMITED

Annual Report 2010

Financial Calender

EVENT DATES FOR FINANCIAL YEAR 2011

Annual General Meeting	Wednesday 29 September 2010
Financial year 2011 half year results announced	Thursday 10 February 2011
Financial year 2011 annual results announced	Thursday 11 August 2011
Annual General Meeting	Wednesday 28 September 2011

The Company reserves the right to change these dates.

This Annual Report (including the Financial Report) is for the Company up to 30 June 2010.

THE REGISTERED OFFICE OF KEYBRIDGE CAPITAL LIMITED IS:

Level 26, 259 George Street
Sydney NSW 2000

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Chairman's Report

On behalf of the Directors of Keybridge Capital Limited, I present the Company's Annual Report for the 12 month period ended 30 June 2010.

Over the past two years, the global financial downturn and its flow-on effects have had major impacts on the business operations and financial health of Keybridge Capital. These impacts are continuing, with prices in asset markets still to experience a sustained recovery and senior bank debt tending to remain in short supply.

In 2010, Keybridge reported a net loss after asset impairments of $49.9 million. The Company has shareholders' funds of $78.7 million, equating to $0.46 cents per share.

The Board is focused on managing the business to preserve as much net value for shareholders as possible. We are seeking to reduce borrowings by accelerating the realisation of investments where practicable, and we are ensuring that our management team is doing all that it can to maximise the ongoing value of remaining investments.

The Company has a good working relationship with its lending banks, and this has allowed Keybridge to realise investments in an orderly fashion. Our corporate debt facility matures in June 2011, and a key objective for the Board and management in the coming year will be to achieve ongoing terms from its lenders that ensure a continuation of this orderly approach. This will permit the Company to optimise investment values. In particular, it will enable the Company's shipping and aviation investments to be realised over the medium term as market conditions improve.

During the past year, the Company appointed Cass O'Connor as an additional independent Non-Executive Director. Cass has brought valuable experience and skills to the Board. During the year, I also became a Non-Executive Chairman, which brings the Company into line with best practice governance standards.

For the foreseeable future, the Board will continue to guide the Company to realise investments in an orderly manner in order to repay its corporate borrowings. Until this occurs, dividend payments are unlikely to resume. Throughout this period, we will continue to provide regular and transparent communication to stakeholders on the financial position of the Company.

Looking forward, whilst there is considerable uncertainty as to the timing of improvement in asset markets, and in particular the shipping and aviation industries, we can say that these markets have tended to normalise over time. This provides us with confidence that Keybridge Capital should be able to return value to shareholders in due course.

On behalf of the Board and management, I thank you for your support as we seek to position Keybridge Capital for a meaningful recovery.

Irene Lee

Irene Lee
Chairman

BACKGROUND

Keybridge Capital has a portfolio of investments with a focus on the asset classes of property, aviation, shipping and infrastructure. It also has a small number of lending transactions.

Some of Keybridge's investments are senior loans, ranking in priority ahead of other creditors and equity; some are equity, with Keybridge being the owner, or co-owner, of the relevant asset. The majority of the Company's investments, though, are either mezzanine loans, or preference equity, ranking ahead of equity, but behind senior debt.

In most transactions, Keybridge has invested in physical assets, be they property projects, aircraft, ships or renewable electricity facilities.

In many of its investments, Keybridge has worked with an industry partner to structure the transaction, with that partner remaining involved to manage the transaction until its realisation.

In the 2009 and 2010 financial years, the knock-on effects from the global financial crisis affected adversely all the markets in which Keybridge had participated. This resulted in the Company incurring significant impairment provisions, reducing the value of the Company's assets and its shareholders' funds. It has also meant that, under revised terms for our banking facility, we are required to follow a cash sweep mechanism that does not permit new investments or dividends to shareholders.

We finalised these revised banking arrangements in the first half of the 2010 financial year. Since then, we have achieved debt repayments in advance of what is required. In the period to 30 June 2010, minimum required debt repayments were $30.5 million; those actually achieved were $64.0 million. The Company remains focused on achieving further reductions in its corporate borrowings ahead of the refinancing date of June 2011.

PROFITABILITY

Keybridge incurred a net loss after tax for the year to 30 June 2010 of $49.9 million. An operating profit of $7 million was offset by foreign exchange losses of $12 million, asset impairments of $33 million and a net write-down of deferred tax assets of $12 million.

	2010 $ million	2009 $ million
Income	27.5	59.8
Borrowing Costs	(15.6)	(18.4)
Operating Costs	(4.7)	(5.4)
Operating Profit	7.2	36.0
Foreign Exchange	(11.6)	(14.3)
Net Impairments	(33.2)	(152.4)
Income Tax	(12.3)	1.6
Net Profit After Tax	(49.9)	(129.1)

Operating profit was materially lower in 2010 than in 2009. This was due to a much reduced level of income, which was the result of:

- Cash distributions to Keybridge from its investments being curtailed due to economic circumstances requiring surplus cashflow within the transactions to be applied to accelerated senior debt repayments;
- Some investments being treated as non-income accruing due to their impairment; and
- A lower level of average investments due to the strategy to accelerate realisations.

The impact on income levels as a result of the global financial crisis can be illustrated by the average return on investments. In 2010, the average return on investments was 10% per annum, compared with 14% per annum in 2009, and 19% per annum in 2008.

In contrast, the average cost of borrowings in 2010 was relatively stable at just under 9% per annum.

The foreign exchange loss in 2010 reflects the fact that, in May 2009, Keybridge closed-out its remaining foreign exchange hedging contracts. Of the Company's total assets as at 30 June 2010, approximately 79% were denominated in US Dollars, with a further 4% in Euro. Of the US Dollar assets, approximately two-thirds were hedged by corporate borrowings also denominated in US Dollars. For the remaining, unhedged component of foreign currency assets, Keybridge's profitability is subject to variability from changes in the value of the Australian Dollar against the US Dollar and, to a smaller extent, the Euro. Since closing out the foreign exchange contracts in 2009, the Australian Dollar has appreciated against those two currencies, leading to a loss in value of the unhedged foreign currency assets.

The Company's income tax expense in 2010 was a result of the previously recognised deferred tax asset being written down to zero in the first half of the year. This decision was taken because of the uncertainty of being able to utilise the tax benefits over time. For this same reason, the Company has not recognised any new tax credits in 2010, despite incurring a large accounting loss.

BALANCE SHEET POSITION

As at 30 June 2010, following the additional impairment provisions, the Company's balance sheet could be simplified as follows:

	$ million
Investments	226
Other Assets	7
Liabilities	(154)
Shareholders' Funds	79

This level of shareholders' funds equated to net tangible assets of $0.46 per share.

The composition of investments by asset class was as follows:

	$ million	% of Total
Aviation	136	60%
Lending	38	17%
Shipping	27	12%
Property	15	7%
Infrastructure	10	4%
	226	100%

Looking at each asset class in turn:

Aviation

The Company's aviation transactions predominantly involve preferred equity and mezzanine loan investments in passenger jet aircraft. The aviation industry has been impacted by reduced airline profitability, falls in the secondary market prices of aircraft and a reduced availability of senior bank debt. The airlines underpinning Keybridge's investments have, in the main, performed soundly. In the past year, $10 million has been realised from our aviation investments.

Lending

These investments consist of five senior and subordinated loans to entities in a variety of industries. Three of these loans are up-to-date with their interest payments. The other transactions have stopped paying interest to Keybridge. The Company has initiated actions in two of these transactions to have the loans repaid. Over the past year, $15 million has been realised from our lending transactions.

Shipping

Keybridge's shipping transactions are equity investments in vessels that carry wet or dry cargoes. Short-term charter rates and secondary market prices of vessels have fallen over the past couple of years. The shipping transactions in the Company's portfolio have senior debt facilities with loan-to-valuation covenants that have already been, or may in the future be, breached. Thus, the continuing support of the non-recourse senior lenders is important. A factor that provides confidence that this should occur is that all the charterparties in Keybridge's portfolio continue to meet their payment obligations on time. In 2010, just over $1 million was realised from our shipping investments.

Property

Keybridge's property investments consist mainly of mezzanine loans secured by development projects in eastern Australia and the United States. These investments have become impaired due principally to the slowdown in sales activity and the fall in prices in residential markets in these locations. In the past 12 months, $14 million was realised from our investments in this sector.

Infrastructure

The Company has one remaining infrastructure investment, which is an equity investment in a solar electricity facility in Spain. The secondary market prices for renewable investments have fallen due to a reduction in the number of buyers and an increase in the required return that is being sought. Over the past 12 months, $27 million was realised from our other infrastructure investments.

WAY FORWARD

For the time being, we are not able to make new investments. Our priority is to achieve realisations of existing investments to repay our debt facility. It is only after we have been able to reduce our outstanding borrowings significantly that we can contemplate resuming distributions to shareholders.

In the meantime, we are focused on:

- Keeping our operating costs low;
- Bringing forward investment repayments wherever possible; and
- In those transactions where market liquidity and pricing do not permit a realisation in the short to medium term, pursuing strategies to preserve as much value for Keybridge as possible.

This last point is particularly relevant for the Company's aviation and shipping investments. Realisations in these asset classes are impractical in current market conditions due to the unavailability of reasonably priced senior debt and generally subdued trading conditions.

A key objective for the Company in the next 6 to 12 months will be the refinancing of its corporate debt, which matures in June 2011. It is imperative that Keybridge achieves ongoing terms from its lenders that enables the Company to continue realising its assets in the ordinary course.

M Phillips

Mark Phillips
Managing Director

Board of Directors

IRENE LEE

Appointed Executive Chairman of Keybridge Capital Limited in October 2006 and became Non-Executive Chairman in October 2009.

Irene Lee has an extensive background in the finance industry. Over the past 30 years she has held senior positions in investment banking and funds management in the UK, the US and Australia. Previously, Irene was an executive director of Citicorp Investment Bank, Head of Corporate Finance at Commonwealth Bank of Australia and CEO of Sealcorp Holdings Limited. She was also formerly a non-executive director of Record Investments Limited, Mariner Financial Limited, Record Funds Management Limited, and Ten Network Holdings Limited and a member of the Takeovers Panel.

She is presently a non-executive director of QBE Insurance Group Limited, ING Bank (Australia) Limited, The Myer Family Company Pty Limited and Cathay Pacific Airways Limited. She is also a member of the Advisory Council of JPMorgan Australia Limited and the Executive Council of the University of Technology Sydney Faculty of Business.

MARK PHILLIPS

Appointed Managing Director of Keybridge Capital Limited in August 2006.

Mark Phillips has over 25 years' experience in financial markets with expertise in building and managing portfolios of loans, investments and tradeable instruments and developing new businesses.

Prior to his role with Keybridge Capital Limited, Mark had been Managing Director of Record Investments Limited for over four years where he played a key role in building the company's market capitalisation from under $200 million to over $1.5 billion. Prior to this, Mark was employed by Commonwealth Bank of Australia for 20 years in various roles, including Chief Dealer – Interest Rate Swaps, Head of Long End Trading, Head of Quantitative Analysis, Head of Equity Finance, Head of Property Finance and Head of Government Finance.

He has been a director of Interlink Roads Pty Limited (operator of the M5 Motorway in Sydney) and a director of ASB Bank Limited in New Zealand. Mark joined the Mariner Financial group in March 2006 and was appointed Managing Director of Keybridge Capital on the restructure of the group in October 2006.

MICHAEL PERRY

Appointed a Non-Executive Director of Keybridge Capital Limited in October 2006.

Michael Perry has over 30 years' experience in merchant banking, primarily project financing infrastructure projects in Australia, South East Asia and the UK. He was executive director in charge of project finance at both Capel Court Pty Limited and Citibank Australia, and a non-executive director of the companies formed to develop the Gateway Bridge in Brisbane, the Yulara Township in central Australia and the electricity interconnector between Tasmania and the Australian mainland.

In 1985, he established his own business to advise on such projects as the Sydney Harbour Tunnel and Sydney's M2 Tollway. He has held a number of government posts, such as Chairman of the NSW taskforce to establish guidelines for private sector development of infrastructure and Chairman of the Australian Council for Infrastructure Development.

He has been a non-executive board member of the Development Australia Fund and Record Investments Limited. He is currently on the Board of the Irrigation Development Board of Tasmania and retained by a number of major local and international companies involved in banking, insurance and manufacturing.

CASS O'CONNOR

Appointed a Non-Executive Director of Keybridge Capital Limited in September 2009.

Cass O'Connor has over 20 years' experience in private equity and investment banking, principally mergers and acquisitions, asset sales and work-outs in the Asia Pacific region. She has also been directly involved in operations across a range of industries, and has assisted in the start up and transition operations of a number of entities, primarily in the telecommunications and media industries.

She has previously worked with Carnegie, Wylie & Company, Goldman Sachs (Australia), Turnbull & Partners Limited and Deutsche Bank. She started her own investment and advisory entity in 2001, which is currently her primary activity.

She is a non-executive director of Lifetime Care and Support Authority and the Motor Accidents Authority (both NSW Government entities), McGrath Group Limited, The Matilda Rose Early Intervention Centre and a number of private companies.

Previous directorships have been in the commercial and not-for-profit sectors.

Aviation

The markets in which the Company has invested remained, on the whole, subdued for the majority of the 2010 financial year. The focus of the Company over the financial year continued to be managing its investments portfolio with the aim of bringing forward realisations where they can be achieved at acceptable prices, so as to reduce the Company's level of debt, and protecting the value of remaining investments as much as possible.

During the 2010 financial year, the following changes to the composition of the Board took place:

- In September 2009, the Board appointed Cass O'Connor as an independent Non-Executive Director. Ms O'Connor was elected at the Company's 2009 Annual General Meeting (AGM).
- Irene Lee, who was appointed Executive Chairman in October 2006, became a Non-Executive Chairman in October 2009. Ms Lee offered herself for re-election as Non-Executive Chairman at the Company's 2009 AGM and was elected.

Keybridge Capital's existing corporate governance policies and practices meet the requirements of both the *Corporations Act 2001* (Cth) and the Listing Rules of the Australian Securities Exchange (ASX). In formulating its policies, the Company has endeavoured, as far as practicable, to be consistent with the ASX Corporate Governance Principles and Recommendations (ASX Principles). Whilst review of the Company's governance framework is appropriate to reflect the Company's change in strategic direction, Keybridge Capital and its Board of Directors are committed to achieving and demonstrating the highest standards of accountability and transparency and see the continued development of a cohesive set of corporate governance policies and practices as fundamental to the success of the Company.

The following table sets out the relevant ASX Corporate Governance Principles:

Principle number	Description	Discussion in Report
1	Lay solid foundations for management and oversight	page 10
2	Structure the Board to add value	pages 12 to 15
3	Promote ethical and responsible decision-making	pages 15 to 18
4	Safeguard integrity in financial reporting	pages 18 to 19
5	Make timely and balanced disclosure	page 20
6	Respect the rights of shareholders	page 20
7	Recognise and manage risk	pages 20 to 24
8	Remunerate fairly and responsibly	page 24

Each of the Company's policies and charters referred to below are publicly available on the Company's website at www.keybridge.com.au

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Relevant policies and charters

- Board Charter

The Board's primary responsibilities include:

- approving management's corporate strategy and performance objectives;
- overseeing the Company, including its control and accountability systems;
- appointing, monitoring and, where appropriate, removing the Managing Director and senior executives;
- approving and monitoring the progress of major investments, capital expenditure, capital management, acquisitions and divestitures;
- approving and monitoring financial and other reporting, including the review and approval of the annual and half-yearly financial reports;
- reviewing and ratifying systems of risk management, internal compliance and control and legal compliance to ensure appropriate compliance frameworks and controls are in place; and
- monitoring and ensuring compliance with legal and regulatory requirements, ethical standards and policies and best practice corporate governance requirements.

The Board has delegated to management the responsibility for:

- developing, and upon approval, implementing strategies, business plans and annual budgets for the Company;
- managing resources within the budget and reporting performance against budget to the Board;
- day-to-day management and administration of the Company;
- managing the risk and compliance frameworks, including reporting to the Board and the market;
- appointing staff and evaluating their performance and training requirements, as well as developing Company policies to ensure the effective operation of the Company;
- ensuring compliance with applicable laws and regulations; and
- ensuring the Board is given sufficient information to enable it to perform its functions.

The Managing Director is responsible for ensuring the responsibilities delegated by the Board are properly discharged by management and for keeping the Board informed on these matters.

Directors, senior executives and other employees have received training to ensure they are aware of the Company's key governance policies.

The Board has in place procedures to assess the performance of executives, including the Managing Director. For the Managing Director, this process involves the Remuneration Committee, as well as the Board, reviewing the performance of the Managing Director across a range of key areas including profitability, debt reduction, business planning, stakeholder management and team leadership. The review is discussed with the Managing Director and a recommendation developed for Board approval covering base pay, incentive awards, equity awards and terms of engagement. For other senior executives, the Managing Director reviews each executive's performance across the same key areas, discusses the review with the executive and recommends any change in remuneration to the Remuneration Committee for approval. Further details regarding the performance review process and outcome for senior executives are contained in the Remuneration Report on pages 34 to 43.

Lending

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Relevant policies and charters

- Board Charter
- Nomination Committee Charter

The size and composition of the Board are determined by the Board within the parameters set by Keybridge Capital's Constitution which requires that there are no less than three and no more than 10 directors.

At present the Board consists of four directors with an appropriate range of skills, experience and expertise to understand and deal competently with current and emerging business issues. The names of Keybridge Capital's Directors during the financial year, including their respective skills, experience, relevant expertise and term of office are set out on pages 31 to 33.

The Company's Director Tenure Policy, which applies to all Directors except the Managing Director, specifies that no Director may hold office for more than three years without re-election by shareholders and that the maximum term for a Director is 10 years (in the absence of exceptional circumstances).

The Board met 11 times during the 2010 financial year. Full details of Directors' attendance at Board and Committee meetings are set out in the Directors' Report on pages 33 to 34.

The Board has established committees to assist it in carrying out its responsibilities and to consider certain issues and functions in detail. Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. The charter, committee structure and composition are reviewed on an annual basis.

Minutes of committee meetings are tabled at the following Board meeting.

The Board committees are:

- Audit, Finance and Risk Committee (AFRC);
- Remuneration Committee; and
- Nomination Committee.

Details regarding the AFRC are contained in the discussion of ASX Principles 4 and 7. Details regarding the Remuneration Committee are contained in the section covering ASX Principle 8.

Details regarding the Nomination Committee are as follows:

Members and composition	Role
Irene Lee *(Chairman)* Michael Perry Mark Phillips Cass O'Connor *(appointed 30 September 2009)*	The primary objective of the Nomination Committee is to review the membership of the Board having regard to present and future needs of the Company and to make recommendations on Board composition and appointments. The Nomination Committee is responsible for: • reviewing the Board's role, the processes of the Board and Board Committees, the Board's performance and each Director's performance; • identifying, and recommending to the Board, nominees for membership of the Board (including the Managing Director) and re-election of incumbent Directors; • identifying and assessing the necessary and desirable competencies and characteristics for Board membership and regularly assessing the extent to which those competencies and characteristics are represented on the Board; • ensuring succession plans are in place to maintain an appropriate balance of skills on the Board and reviewing those plans; and • if appropriate, recommending the removal of Directors.

Members and composition	Role
	The Nomination Committee oversees the process for selecting and appointing new Directors. As part of this process, the Nomination Committee considers the potential Director's suitability against a range of criteria including whether the potential Director: • has the necessary skills, experience and knowledge to perform their duties and responsibilities as a Director; • is able to devote the time necessary to perform their duties and responsibilities; • is sufficiently independent; and • is able to work with the other members of the Board. The terms of engagement of new Non-Executive Directors are set out in a formal letter of appointment.

In October 2006, Ms Lee was appointed Chairman of the Nomination Committee. As Ms Lee was Executive Chairman of the Board between October 2006 and October 2009, the Board acknowledges that at the time of her appointment to the chair of the Nomination Committee, she may not be viewed as independent. As such, the Company does not comply with Recommendation 2.2 of the ASX Principles which states that the Nomination Committee should be chaired by an independent director. However, the Board remains of the view that it is in the best interests of the Company that Irene Lee be Chairman given her skills, expertise and reputation, the small size of the Company's Board and the principal role of the Committee in ensuring that the Board, which she chairs, has an appropriate and effective membership. If actual or perceived matters of conflict arise or are likely to arise, any Committee Member may request that Michael Perry, an independent Non-Executive Director, assumes the role of Chair.

In addition, Irene Lee has now become a Non-Executive Director and, with the effluxion of time, will become independent.

Board Performance Review

A performance review of the Board and AFRC was completed in May 2010. The performance review included the following assessments:

- whether Directors have satisfied the time requirements necessary for the performance of their functions;
- whether Directors have worked together effectively;
- whether Directors have the necessary skills, experience and knowledge to perform their duties; and
- whether the Board and AFRC could more effectively review key business and strategic issues.

The performance review was conducted by the Chair of the Remuneration Committee. The findings were discussed with the individual Directors and the Board as a whole and recommendations were then formally adopted by the Board.

Director Independence

The Board assesses each Director against a range of criteria on a case-by-case basis to determine whether they are in a position to be characterised as independent, meaning they can bring, and be perceived to bring, quality judgements, free of bias, to all issues. The Board's specific principles in relation to Director independence include:

- Being free from any business or other relationship which could, or could reasonably be perceived to, interfere materially with the Director's ability to act in the best interests of the Company. Such interference could arise as a result of a Director having been, within the last three years, directly or indirectly:
  - a material supplier or customer of the Company;
  - a principal of a material professional adviser or material consultant to the Company;

– employed in an executive capacity by the Company; or
– in a material contractual relationship with the Company other than as a Director.

Materiality is assessed on a case-by-case basis having regard to the individual circumstances of each Director.

- Whether a substantial shareholding exists, including where the Director has a relevant interest in shares held by another party. The definition of substantial shareholder for the purpose of this assessment is based on the *Corporations Act 2001* definition which generally sets 'substantial' as a holding of 5% or more of a company's voting shares.

Directors provide the Board with all information regarding interests and relationships which may affect their independence so as to enable the Board to make assessments regarding independence. It is the Company's practice to allow its Directors to accept appointments outside the Company only with the prior approval of the Board.

The appointment of an additional independent Non-Executive Director, Cass O'Connor, in September 2009 increased the number of independent Non-Executive Directors to two.

As at the date of this Report, it is the Board's view that two of its Non-Executive Directors, Cass O'Connor and Michael Perry, are independent in their role of overseeing the general operations of the Company. The Chairman has been an executive of the Company within the last three years and, for this reason, is not currently independent. With the Managing Director also being on the Board, the Company does not comply with Recommendation 2.1 of the ASX Principles which states that 'a majority of the Board should be independent directors'. This situation will be remedied over time once the period for which the Chairman has not been an executive extends beyond three years.

Chairman

The Chairman is selected by the Board. As discussed above, between October 2006 and October 2009, the Chairman, Ms Lee, was Executive Chairman and became a Non-Executive Chairman in October 2009.

The Chairman's role includes:

- providing leadership to the Board and the Company including promoting the efficient organisation and conduct of the Board's functions;
- facilitating Board discussions to ensure core issues facing the Company are addressed and that the Board considers and adopts strategies designed to meet present and future needs of the Company;
- monitoring the performance of the Board; and
- facilitating the effective contribution and ongoing development of all Directors.

The executive responsibilities of the Chairman had included originating, developing and monitoring strategic partnerships and taking a leadership role in developing specific transactions for investment by the Company. Given the change in strategic direction of the Group, the Chairman's responsibilities are now non-executive and no longer include initiating strategic partnerships but involve the maintenance and guidance of strategic partnerships and transactions to support the orderly realisation of investments.

Recommendation 2.2 of the ASX Principles states that 'the chairperson should be an independent director'. As discussed above, in October 2009, the Chairman became non-executive. Despite this, she is not viewed as independent because of her previous role as Executive Chairman and, as a result, the Company will continue not to comply with Recommendation 2.2 of the ASX Principles. The Board believes that its non-compliance with this recommendation is in the best interests of the Company given Irene Lee's skills, expertise, reputation and business relationships with transaction partners. In addition the Board has been structured to ensure it can exercise independent judgement in relation to business dealings through adopting and implementing processes to manage any conflicts of interest that may arise through the Code of Corporate Conduct and Board Charter.

In addition, it is the Company's practice to allow for the appointment of a "lead independent director" to monitor and report on issues falling within the normal purview of a Non-Executive Chairman. The lead independent Director will chair any Board meeting or parts of Board meetings where the Chairman is absent or where she has absented herself due to a conflict of interest. During the 12 month period to 30 June 2010, there were no occasions when a lead independent director was sought.

Indemnity, access to information and independent professional advice

The Directors may access any information they consider necessary to fulfil their responsibilities. This information includes access to:

- management to seek explanations and information; and
- external auditors to seek explanations and information from them without management being present.

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense.

Information in relation to indemnity and insurance arrangements for Directors and Officers of the Company is contained on page 33 of this Annual Report.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Relevant policies and charters

- Corporate Code of Conduct
- Code of Conduct for Directors and senior executives
- Share Trading Policy
- Related Party Policy
- Communications and Continuous Disclosure Policy

Code of Conduct

Keybridge Capital has developed a number of policies to ensure that the Company is mindful of and complies with the guidelines for ethical and responsible decision-making. Those policies require that, at all times, all Keybridge Capital personnel act with the utmost integrity and objectivity and in compliance with the letter and the spirit of the law, and Company policies.

The Company's over-arching policy is its Corporate Code of Conduct. Below this, the Company's Code of Conduct for Directors and senior executives serves to articulate the high standards of honesty, integrity and ethical and law-abiding behaviour expected of people in positions of influence.

Elements of the Corporate Code of Conduct were amended in the 2010 financial year following the Board's review of policies and charters to ensure they reflect the Company's strategic direction not to make new investments and to manage existing investments and realise these over the medium term.

Key issues addressed in the Corporate Code of Conduct include:

Corporate mission	The Company's mission is to preserve value for its shareholders as it manages and, over time, realises its investments portfolio. Key elements in achieving this mission include: • protecting the value of investments; • managing risk; • maintaining strong relationships with key stakeholders and financiers; • ensuring ongoing financial stability; and • retaining a high quality team.

Shipping

Responsibility to shareholders and investors	The Company seeks to: • return capital to shareholders after repaying existing corporate borrowings; • serve and protect the long term interests of its shareholders and investors; • communicate openly, honestly and on a timely basis with its shareholders and the financial markets generally; and • ensure that financial disclosure to shareholders and other investors is based on best practice and complies with all relevant laws, regulations and rules.
Honesty and fairness	The Company will act honestly and fairly in all of its dealings. This includes: • honouring contractual commitments; • avoiding profiting from situations in which it has a conflict of interest; • where conflicts of interest arise, the Company using its best endeavours to ensure disclosure to all relevant parties; and • the Company and its employees not offering or accepting bribes or secret commissions.
Responsibilities to the community	The Company will engage in support for community activities, including donations and sponsorship activities that are reasonable for a company of its size and financial resources.
Regulatory compliance	The Company does, and will continue to, comply with all relevant laws, regulations and rules governing its activities in Australia and other jurisdictions in which it may operate.
Responsibilities to the individual	The Company seeks to ensure that: • employment practices are consistent with market practice and all relevant employment laws, regulations and rules; and • privacy of employees is respected and any confidential or privileged employee information in its possession is not misused.
Compliance	It is expected that senior executives and other employees will report promptly, and in good faith, any actual or suspected violation of the standards, requirements or expectations set out in the Corporate Code of Conduct and encourage others to do the same. The Code requires that all reports of any violation or unethical behaviour must be investigated thoroughly, the rules of natural justice are observed and appropriate disciplinary action is taken if an allegation is substantiated.

Steps are taken to ensure that employees remain aware of the Company's policies and practices and of their ongoing responsibilities.

Trading in Company Securities

The purchase and sale of Keybridge Capital securities by Directors, senior executives and employees is only permitted during the one month periods following the release of the half-yearly and annual financial results to the market and following the Annual General Meeting, where there is a product disclosure statement or a prospectus on issue in respect of the securities or where specifically determined by the Directors to be an appropriate time in which securities can be traded. The Company's Share Trading Policy requires Directors to advise the ASX on the day of trading of any Company securities. Furthermore, trading in Keybridge Capital securities is only permitted where the individual:

- does not possess materially price sensitive information regarding the Company which has not yet been made public; and
- has first informed the Chairman or Managing Director or, in the case of the Chairman, the Chair of the AFRC.

The Company's Share Trading Policy also sets out the Company's position regarding hedging of vested and unvested Keybridge Capital securities. The Policy provides that:

- Directors and senior executives are prohibited from entering into hedging transactions in relation to securities that have not yet vested, or that are held subject to a holding lock or restriction on dealing under an employee share plan operated by the Company;
- clearance must be obtained from an approving officer prior to entering into a hedging transaction in relation to vested securities; and
- notification of any hedging transaction must be made in accordance with the Policy.

The Share Trading Policy prohibits the Company's Directors from providing Keybridge Capital shares as security for borrowings.

In addition to addressing dealings in Keybridge Capital securities, the Share Trading Policy provides that Directors and employees may only purchase or sell securities of another listed entity if he or she does not have information that he or she knows, or ought reasonably to know, is inside information in relation to those securities.

The Directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities during the past year.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Relevant policies and charters

- Audit, Finance and Risk Committee Charter
- Selection and appointment of External Auditor

The Board has established an Audit, Finance and Risk Committee (AFRC). The members, composition and role of the AFRC are as follows:

Members and composition	Role
Michael Perry *(Chairman)* Cass O'Connor *(appointed 30 September 2009)* Irene Lee *(appointed 2 February 2010)*	The primary objective of the AFRC is to assist the Board achieve its corporate governance and oversight responsibilities in relation to financial risk management, application of accounting policies, internal control and risk management systems, external financial reporting and legal and regulatory compliance. The AFRC is required to consist of members who have: • appropriate financial expertise; and • a working knowledge of the financial services industry in which the Company operates. The Chairman of the Board is precluded from being the chairman of the AFRC. Specifically, the role of the AFRC includes: • maintaining and improving the quality, credibility and objectivity of the financial reporting process; • assessing the appropriateness and application of the Company's accounting policies and principles so that they accord with the applicable financial reporting framework; • monitoring the Company's financial management, including management of the Company's funding, hedging, liquidity and insurance coverage; • reviewing the framework for management of the Company's transactional risks, including concentration exposures and the manner in which transaction-based decisions are made; • providing a forum for communication between the Board, external auditor and senior executives;

Members and composition	Role
	• ensuring effective communication between the Board and the external auditor; • reviewing the independence and performance of the external auditor and providing them with confidential access to the non-executive members of the Board and an ability to attend AFRC meetings; and • recommending to the Board the appointment, removal and remuneration of the external auditor, and reviewing the terms of its engagement, and the scope and quality of the audit.

In fulfilling its responsibilities, the AFRC receives regular reports from management and the external auditor and meets separately with the external auditor at least twice a year without the presence of management.

The AFRC has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

Recommendation 4.2 of the ASX Principles states that an Audit Committee should have at least three members, all of whom are Non-Executive Directors and a majority independent, and that the committee is chaired by an independent director (who is not chair of the board). With the appointment of the new independent Non-Executive Director, Cass O'Connor, during the year, the Company is compliant with Recommendation 4.2 and the composition requirements of the AFRC.

Further information on the qualifications of the Chairman of the AFRC is set out in the Directors' Report on page 32 of this Annual Report.

Management sign-off on financial reports

Consistent with their obligations under section 295A of the Corporations Act, the Managing Director provides formal statements to the Board confirming that Keybridge Capital's financial reports present a true and fair view, in all material aspects, of the Company's financial position and performance and have been prepared in accordance with all relevant accounting standards (see page 23 of this Corporate Governance Statement for details of the sign-off provided for the financial year ended 30 June 2010).

External Auditor

The Company's policy is to appoint an external auditor that clearly demonstrates experience, quality and independence.

KPMG has been the Company's external auditor since 18 October 2005.

The performance of the external auditor is reviewed annually. In addition, the AFRC will periodically invite the incumbent auditor and other top tier audit firms to submit proposals for the provision of statutory audit, taxation and GST services to the Company. The AFRC will assess proposals on the basis of the firms' understanding of the Company's business and its needs, their capacity for proactive and positive contribution to the efficiency and effectiveness of Keybridge Capital's business operations and the demonstrated knowledge and teamwork of the audit team.

The Company complies with auditor rotation requirements. The lead partner of KPMG for the Company's audit will rotate from the audit team after the June 2010 audit.

An analysis of fees paid to the external auditor, including a breakdown of fees for non-audit services, is provided in Note 30 to the Financial Statements. It is the policy of the external auditor to provide to the AFRC an annual declaration of its independence. The external auditor will also attend the Annual General Meeting and will be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

Relevant policies and charters

- Communications and Continuous Disclosure Policy

The Company has a policy to ensure compliance with the continuous disclosure requirements of the ASX Listing Rules and the *Corporations Act 2001*. The policy requires timely disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities, subject only to the exclusions identified in the ASX Listing Rules.

The Managing Director and the Company Secretary have been appointed as the persons responsible for communications with the ASX. This role includes responsibility for overseeing and coordinating information disclosure to the ASX, analysts, brokers, shareholders, media and the public.

Directors receive copies of all announcements released to the ASX and copies of the announcements are posted to Keybridge Capital's website.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Relevant policies and charters

- Board Charter
- Communications and Continuous Disclosure Policy

Keybridge Capital is committed to providing shareholders and the market with timely information on the Company's investments and financial performance. It does this by:

- continuously reporting developments through the ASX Company Announcements Platform;
- reporting through a quarterly market update, half-yearly financial report and the Annual Report;
- releasing Company announcements, media briefings, details of Company meetings, press releases and financial reports on the Company's website;
- encouraging shareholder participation at the Annual General Meeting and other general meetings and allowing adequate time to address any queries or questions put by shareholders; and
- requiring the attendance of the external auditor at the Annual General Meeting and to be available to answer questions concerning the conduct of the audit and the preparation and content of the Auditor's Report.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Relevant policies and charters

- Board Charter
- Audit, Finance and Risk Committee Charter
- Risk Management Policy
- Financial Management Policy
- Transactional Risk Management Policy

The identification, assessment and management of risks are core components of the Company's ability to manage existing investments and realise those investments over the medium term. As previously discussed, the continued uncertainty of the markets in which the Company operates has resulted in continuous and extensive review and monitoring by Keybridge Capital's management and reporting to the AFRC and Board.

Property

Risk management systems

The Board is responsible for overseeing the implementation of, and ensuring there are adequate policies in relation to, the Company's risk management, compliance and control systems. These systems require management to be responsible for identifying and managing the Company's material business risks.

The Company's policies aim to ensure that material financial and non-financial risks facing the Company, and within individual investments, are identified, analysed and evaluated and that active processes are in place for the management and reporting of these risks.

Division of Risk Management Functions

Board of Directors

In relation to risk management, the Board's responsibilities include:

a) overseeing the Company, including its control and accountability systems;
b) approving and monitoring the progress of major investments, capital management, acquisitions and divestments;
c) reviewing and ratifying systems of risk management, internal compliance and control and legal compliance to ensure appropriate compliance frameworks and controls are in place; and
d) monitoring and ensuring compliance with legal and regulatory requirements and ethical standards and policies.

In addition, the Board has primary approval discretion over each investment made by the Company. The Board reviews the Company's risk management policies and procedures on an annual basis and where necessary modifies these to promote ongoing improvements in the Company's business model and risk management practices. As a result of the continued uncertainty in the markets in which the Company invests and the current strategy of not making new investments, the Company has continued the suspension of its Transactional Risk Management Policy.

Audit, Finance and Risk Committee (AFRC)

In relation to risk management, the AFRC's responsibilities include:

a) overseeing the establishment and implementation of risk management and internal compliance and control systems and ensuring there is a mechanism for assessing the efficiency and effectiveness of those systems;
b) approving and recommending to the Board for adoption policies and procedures on risk oversight and management to establish an effective and efficient system for:
   - identifying, assessing, monitoring and managing risk; and
   - regularly reviewing and updating the risk profile of the Group and disclosing any material change;
c) assessing the adequacy of the internal risk control system with Management and the external auditors;
d) monitoring the effectiveness of the internal risk control system; and
e) ensuring the risk management system takes into account all material risks.

Further details on the AFRC are included under ASX Principle 4.

Management reporting on risk

Management reporting on risk operates on a number of levels.

All reports to the Board on strategic, operational and investment issues include an assessment by management of the material risks, to ensure that the Board is in a position to make fully-informed business judgements.

In the 2010 financial year, both the Company's Chief Investment Officer and Chief Financial Officer resigned. The Company has continued to implement effectively all of its risk management systems since the departure of these executives.

The Board receives regular reports from management on the quality of the Company's investment portfolio. Management also provides the Board with assessments of the Company's strategic transaction partners, as well as risk management updates addressing the material business risks facing the Company and the extent to which these are being managed effectively. Management reported to the Board on this basis throughout the financial year ended 30 June 2010.

The Board also receives written certifications from the Managing Director and Company Secretary which specifically addresses the Company's financial reporting processes. For the 2010 financial year, the Managing Director and Company Secretary certified that:

"The declaration provided in accordance with section 295A of the Corporations Act in respect of the Consolidated Financial Report for the year ended 30 June 2010 is founded on a sound system of risk management and internal control and the system is operating efficiently and effectively in all material respects in relation to financial reporting risks."

Examples of business risks

Examples of specific business risks, and the processes Keybridge Capital has in place to manage these risks, include the following:

Type of risk	Method of management
Strategic Risk	Strategic risk is managed through: • the Board retaining final approval for all strategic investments, new business activities and most transactional exposures; • regular reports from Management concerning anticipated changes in the economic and business environment, the quality of the investment portfolio and the Company's capital and cashflow position; • Management ensuring open and productive relationships with stakeholders, including transaction originators; and • recognition that the Company has and, for some time into the future, will have a small number of experienced executives and ensuring that employment practices support and encourage continuity of employment of key executives and Board members.
Credit Risk	The Company is not currently pursuing new investments. Investments previously undertaken and currently being managed were undertaken via a structured approach to assessing and monitoring credit risk. The Board has primary approval discretion over each investment made by the Company and receives regular reports on the quality of the Company's investment portfolio and also receives assessments of the Company's strategic transaction partners.
Market Risk	The Company changed its policy in relation to foreign currency exposure during the 2009 financial year. A portion of the currency risk inherent in the Company's assets is hedged by having foreign currency borrowings. The Company also hedges, in part, the interest rate risk in its borrowings via the use of interest rate swaps. Management maintains a clearly defined process for approving, recording and documenting all hedging transactions.
Liquidity Risk	Cashflow forecasts, including anticipated asset sales are maintained for a minimum forecast period of 12 months and reported to the AFRC. The Company seeks to maintain minimum cash-on-hand of around $2 million to cover unexpected contingencies. The Company does not expect to have undrawn available credit lines.

Type of risk	Method of management
Financial Reporting	A three year financial outlook is reviewed annually by the Board and actual financial results are collated monthly and reported regularly to the Board. In addition, the Company undertakes an annual audit and semi-annual review by an external and independent auditor prior to the release of the Company's financial reports.

Further details of the Company's risk management framework are set out in Note 26 to the Financial Statements.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Relevant policies and charters

- Remuneration Committee Charter

The Board has established a Remuneration Committee to assist it develop a remuneration strategy that seeks to:

- maintain alignment with the short and long term interests of shareholders; and
- enable the Company to retain key staff with the requisite skills and experience to deliver the Company's strategy.

The Company's remuneration policies were reviewed by the Board in the 2010 financial year to ensure alignment between the remuneration strategy, the Company's ability to pay and its intent to manage existing investments and realise those investments over the medium term. New remuneration arrangements are outlined in the Remuneration Report on pages 34 to 43.

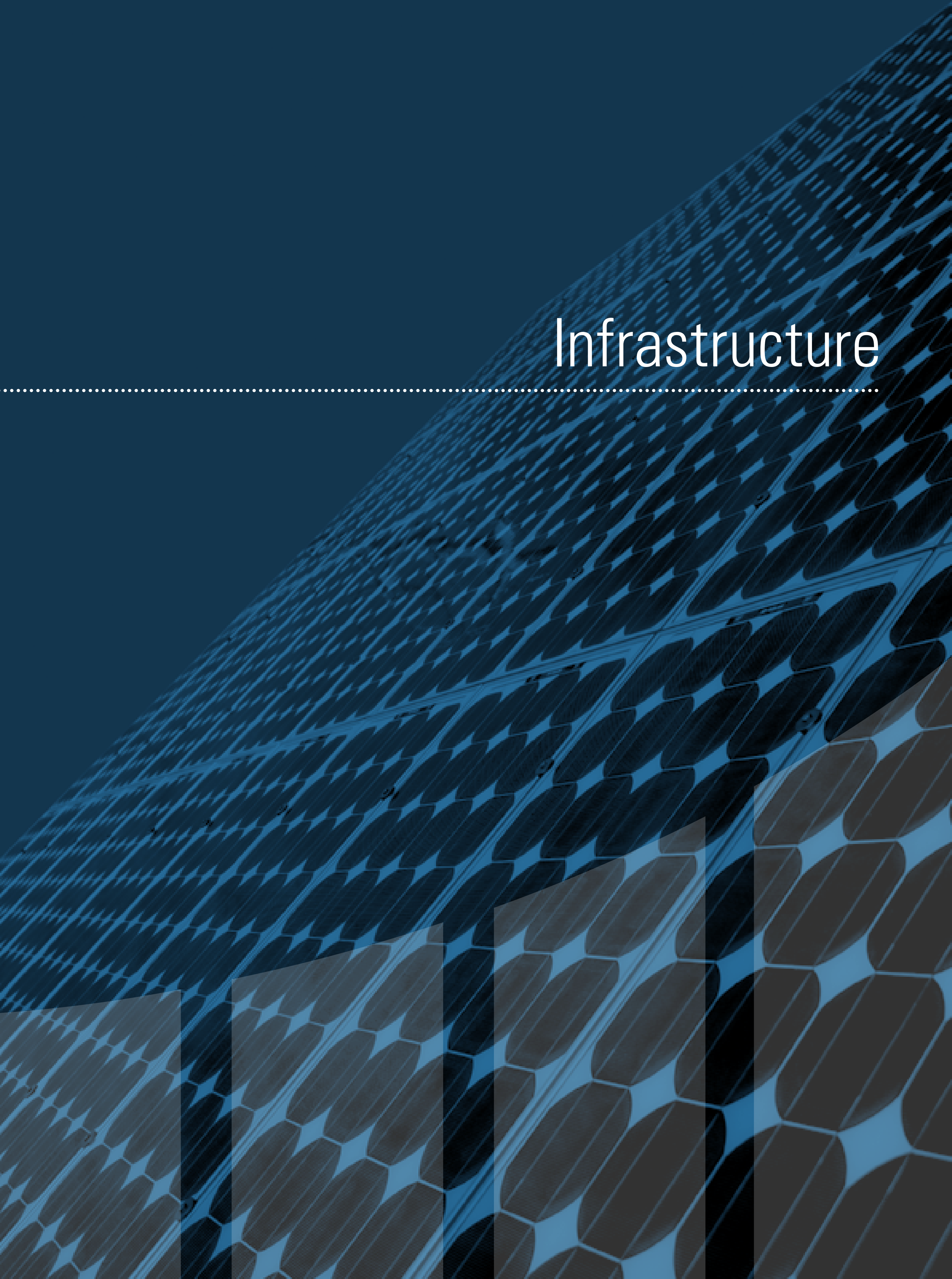
The members, composition and role of the Remuneration Committee are as follows:

Members and composition	Role
Cass O'Connor *(Chairman from 30 September 2009)* Michael Perry *(Chairman until 29 September 2009)* Irene Lee *(from 26 July 2010)*	The primary objective of the Remuneration Committee is to advise the Board on remuneration policies and practices of the Company including the: • remuneration packages and other terms of employment for the Managing Director and senior executives; and • remuneration and retirement policies for Directors.

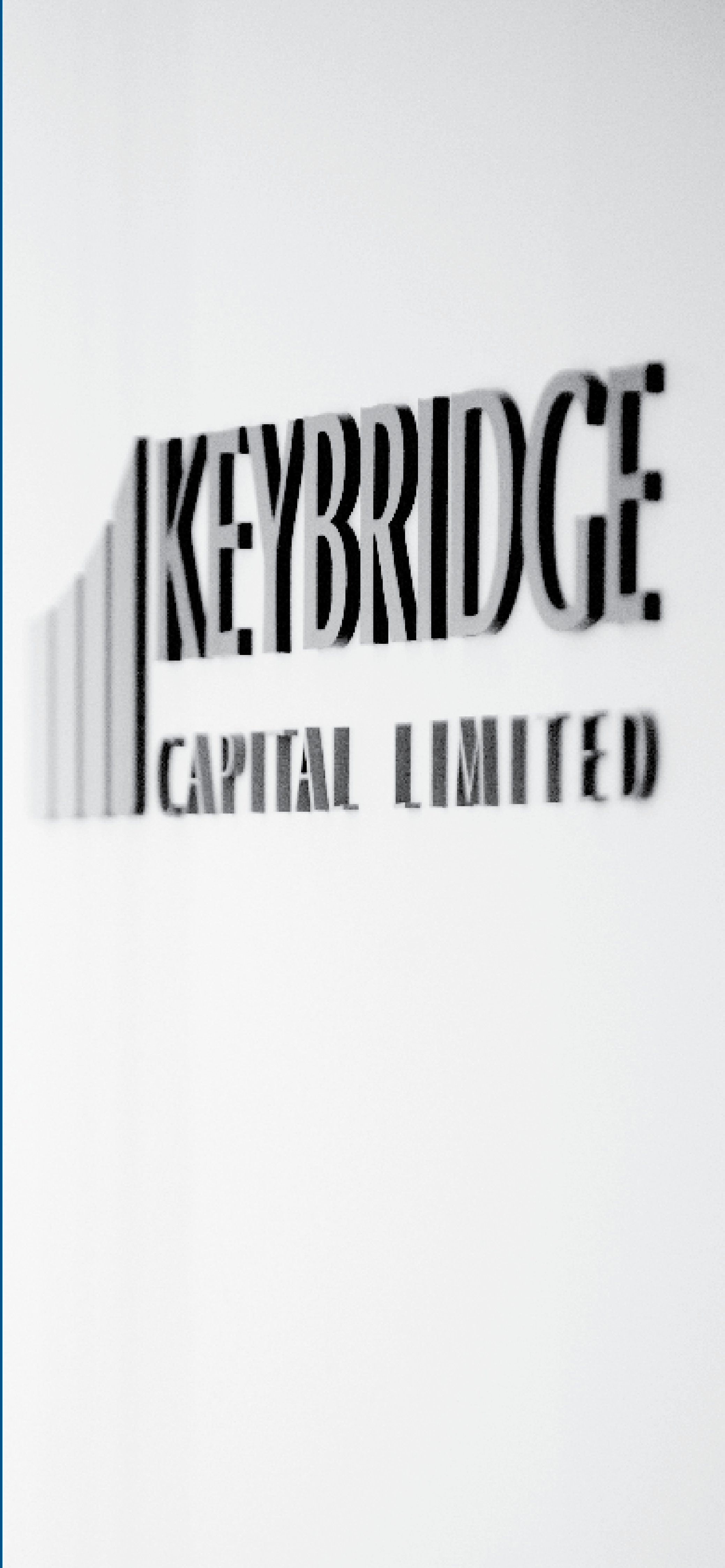
With Irene Lee becoming a Non-Executive Director, she has been appointed to the Remuneration Committee, effective from 26 July 2010. The Company now complies with the composition requirements of the Remuneration Committee Charter and Recommendation 8.1 of the ASX Principles.

The structure and details of the remuneration paid to Directors and senior executives during the period are set out in the Remuneration Report on pages 34 to 43 of this Annual Report and Note 25 to the Financial Statements on pages 95 to 101 of this Annual Report.

Infrastructure



Financial Statements



Your Directors present their report together with the Financial Statements on the Group consisting of Keybridge Capital Limited (the Company) and controlled entities for the year ended 30 June 2010 and the independent auditor's report thereon.

DIRECTORS

The Directors of the Company at the date of this Report are:

Executive Director
Mark Phillips (Managing Director)

Non-Executive Directors
Irene Lee (Chairman)
Michael Perry
Cass O'Connor

Cass O'Connor was appointed as Director on 16 September 2009 and continues in office at the date of this report.

Irene Lee became non-executive in October 2009.

PRINCIPAL ACTIVITIES

Keybridge Capital Limited is a financial services company that has invested in, or lent to, transactions backed by real assets, financial assets or cashflow. Its major asset classes are aviation, lending, shipping, property, and infrastructure. The Company has not made any new investments since October 2008.

DIVIDENDS – KEYBRIDGE CAPITAL LIMITED

For the period to 30 June 2010, the Directors determined not to declare any dividends payable to shareholders. The Company does not expect to declare dividends in future periods until such time as its corporate debt is repaid.

The Company is subject to the Australian corporate income tax rate of 30%.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The global financial crisis and its flow-on effects have had a major impact on the financial health of the Company. In December 2009, the Company signed a revised lending facility with its banks, which removed most of the financial covenants imposed on the Company. The revised terms and amendments include repayment milestones over the 2010 and 2011 years. The 2010 milestone repayments have been satisfied in the period to 30 June 2010. The lending facility also requires the Company to sweep all spare cash to the banks. This prevents the making of new investments and the payment of dividends to shareholders.

Other than these matters, there were no other significant changes in the state of affairs of the Company during the financial year, that are not covered elsewhere in this Annual Report and the Financial Statements.

REVIEW OF OPERATIONS AND RESULTS

The markets, in which the Company has invested, on the whole, remained subdued for the majority of the 2010 financial year. Approximately two-thirds of the Company's investment portfolio is in the aviation and shipping sectors, where secondary markets are still affected by a lack of senior debt and by depressed asset prices. The focus of the Company has been to manage its investments portfolio with the aims of bringing forward realisations where they can be achieved at acceptable prices, so as to reduce the Company's level of debt, and of protecting the value of remaining investments as much as possible.

For the purposes of this review, results for the Group are compared to the prior comparable period.

The Group's net loss after tax attributable to ordinary equity holders for the year to 30 June 2010 was $49.9 million, a decrease of $79.2 million on the prior year. Basic and diluted loss was 29.02 cents per share.

Since 30 June 2009, the Group has recognised $32.4 million of impairments across its investment portfolio of which, $15 million was in the second half of the financial year. Details of the impairments and other matters relevant to the state of affairs of the Group are set out below and in Note 12 of the Financial Statements.

A summary of the consolidated revenues and results of the Company for the year ended 30 June 2010 is set out below:

	2010 $ millions	2009 $ millions
Investment and Interest Income[1]	15.9	42.1
Net Gain/(Loss) on Embedded Derivatives	(7.8)	2.5
Impairment Provision	(25.4)	(151.5)
Total Income/(Loss)	(17.3)	(106.9)
Operating Expenses	(4.7)	(5.4)
Earnings before Interest and Tax (EBIT)	(22.0)	(112.3)
Borrowing Costs	(15.6)	(18.4)
Loss before Tax	(37.6)	(130.7)
Income Tax (Expense)/Credit	(12.3)	1.6
Net Loss After Tax	(49.9)	(129.1)

1 Includes equity accounted profit/(loss), fee income and net FX translation movement.

Investment income was materially lower in 2010 than in 2009 as a result of:

- Distributions to Keybridge from its investments being curtailed due to economic circumstances requiring surplus cashflow within the transactions to be applied to accelerated senior debt reduction;
- Some investments being treated as non-income accruing due to their impairment; and
- A lower level of average investments due to the strategy to accelerate realisations.

The impact on income levels as a result of the global financial crisis can be illustrated by the average return on investments. In 2010, the average return on investments was 10% per annum, compared with approximately 14% per annum in 2009, and 19% per annum in 2008.

In contrast, the average cost of borrowings in 2010 was relatively stable at just under 9% per annum.

The Company incurred a foreign currency loss in 2010. In May 2009, Keybridge closed-out its remaining foreign exchange hedging contracts. Of the Company's total assets as at 30 June 2010, approximately 83% were denominated in either US Dollars or Euro. Of these foreign currency assets, approximately 63% were hedged by corporate borrowings in the same currency. For the remaining, unhedged component of foreign currency assets, Keybridge's profitability is subject to variability from changes in the value of the Australian Dollar against the US Dollar and Euro. The Australian Dollar appreciated against those two currencies in 2010, leading to a loss in value of the unhedged foreign currency assets.

The Company's income tax expense in 2010 was a result of the previously recognised deferred tax asset being written down to zero in the first half of the year. This decision was taken because of the uncertainty of being able to utilise the tax benefits over time. For this same reason, the Company has not recognised any new tax credits in 2010, despite incurring a large accounting loss.

The Group holds derivative financial instruments in the form of interest rate swaps to partially hedge its Australian Dollar and US Dollar borrowings. From inception and in the 12 months to 30 June 2010, the Group's derivative financial instruments have been designated as cashflow hedges under AIFRS. Changes in the fair value of the derivative hedging instruments designated as cashflow hedges are recognised directly in equity to the extent that the hedge is effective. As at 30 June 2010, $3.3 million was included in the Consolidated Statement of financial position.

Throughout the year, and as at 30 June 2010, the Group had a natural hedge for 67% of is US Dollar assets through its US Dollar denominated debt. For the unhedged balance of the US Dollar and Euro denominated investments, the Group is exposed to movements in the value of the US Dollar and the Euro against the Australian Dollar. For the 12 months to June 2010, the net impact of this exposure was a loss of $11.6 million (2009: $14.3 million loss).

Operating expenses (excluding financing costs) decreased by $0.7 million to $4.7 million compared with the previous corresponding period, mainly due to lower staff costs. Financing costs totalled $15.6 million, compared with $18.4 million for the prior corresponding period, reflecting the repayments made to the corporate debt facility.

Over the past financial year, the Company met all required corporate debt repayment obligations. Further, the Directors have formed a view, based on information available to the Company, that there is a reasonable expectation that investment realisations would occur so as to satisfy debt repayment obligations up to the maturity date of the corporate debt facility of 2 June 2011. The Directors acknowledge that the repayment obligation due on 2 June 2011 is likely to be achieved by extension or refinancing at that time.

As confirmed in the Directors Declaration on page 103 in this Annual Report, the Directors have reached the conclusion that, based on all relevant facts, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable and is a going concern.

Investments

Over the year to 30 June 2010, the value of Keybridge Capital's investments portfolio decreased from $324 million to $226 million. This was a reduction of $98 million, and was comprised as follows:

	$ millions
Investments portfolio at 30 June 2009	324
Top-up investments	2
Investment repayments	(67)
Income component of investment realisation	10
Foreign currency translation losses	(18)
Write-downs net of accruals	(25)
Investments portfolio at 30 June 2010	226

Looking at the investments portfolio by asset class, the movement over the year to 30 June 2010 was as follows:

	2009 $ millions	2010 $millions	2010 % of Total
Aviation	148	136	60%
Lending*	47	38	17%
Shipping	47	27	12%
Property	37	15	7%
Infrastructure	45	10	4%
	324	226	100%

**Natural resources disclosed in 2009 are now included in Lending.*

Over the course of the 2010 financial year, the Group made no new investments and investment levels decreased in all asset classes.

Aviation: The Company's aviation transactions predominantly involve preferred equity and mezzanine loan investments in passenger jet aircraft. The aviation industry has been impacted by reduced airline profitability, falls in the secondary market prices of aircraft and a reduced availability of senior bank debt. The airlines underpinning Keybridge's investments have, in the main, performed soundly. In the past year, the Company realised $10 million from its aviation investments.

Lending: These investments consist of five senior and subordinated loans to entities in a variety of industries. Three of these loans are up-to-date with their interest payments. Over the past year, Keybridge realised $15 million from its lending transactions.

Shipping: Keybridge's shipping transactions are ordinary and preferred equity investments in vessels that carry wet or dry cargoes. Short-term charter rates and secondary market prices of vessels have fallen over the past couple of years. The shipping transactions in the Company's portfolio have senior debt facilities with loan-to-valuation covenants that have already been, or may in the future be, breached. Thus, the continuing support of the non-recourse senior lenders is important. All the charterparties in Keybridge's portfolio continue to meet their payment obligations on time. In 2010, the Company realised just over $1 million from its shipping investments.

Property: Keybridge's property investments consist mainly of mezzanine loans secured by development projects in eastern Australia and the United States. These investments have become impaired due principally to the slowdown in sales activity and the fall in prices in residential markets in these locations. In the past 12 months, Keybridge realised $14 million from its investments in this sector.

Infrastructure: The Company has one remaining infrastructure investment, which is an equity investment in a solar electricity facility in Spain. The secondary market prices for renewable investments have fallen due to a reduction in the number of buyers and an increase in the required return that is being sought. Over the past 12 months, we have realised $27 million from our other infrastructure investments.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to balance date the Group exchanged documents for the sale of one of its property investments, this is expected to settle in September 2010 and will realise $5.0 million.

There are no other matters which significantly affected or may significantly affect the operations of the Company, the results of the operations, or the state of affairs of the Company in future financial periods, other than that included in this report under the review of operations and results.

ENVIRONMENTAL REGULATION

The operations of the consolidated entity are not subject to any particular or significant environmental regulation under Commonwealth, State or Territory Law.

INFORMATION ON DIRECTORS

Irene Lee

BA, Smith College, Massachusetts, US; Barrister-at-Law, Honourable Society of Gray's Inn, London

Experience and Expertise

Irene Lee has an extensive background in the finance industry. Over the past 30 years she has held senior positions in investment banking and funds management in the UK, the USA and Australia. Previously, Irene was an executive director of Citicorp Investment Bank, Head of Corporate Finance at Commonwealth Bank of Australia and CEO of Sealcorp Holdings Limited.

Other Current Directorships

QBE Insurance Group Limited
ING Bank (Australia) Limited
The Myer Family Company Pty Limited
Cathay Pacific Airways Limited

Former Directorships in Last Three Years

Ten Network Holdings Limited

Special Responsibilities

Chairman of Keybridge Capital Limited since 26 October 2006
Chairman of the Nomination Committee
Member of the Audit, Finance and Investment Committee

Interests in Shares and Options

675,414 Direct
1,075,000 Indirect

Mark Phillips

BComm (Honours), MComm, University of New South Wales

Experience and Expertise

Mark Phillips has over 25 years' experience in financial markets with expertise in building and managing portfolios of loans, investments and tradeable instruments and developing new businesses.

Other Current Directorships

Nil

Former Directorships in Last Three Years
Nil

Special Responsibilities
Managing Director of Keybridge Capital Limited since 29 August 2006
Member of the Nomination Committee

Interests in Shares and Options
38,000 Direct
415,149 Indirect

Michael Perry
BComm, University of New South Wales

Experience and Expertise
Michael Perry has over 30 years' experience in merchant banking, primarily in the project financing of infrastructure projects in Australia, South East Asia and the UK.

Other Current Directorships
Irrigation Development Board (Tasmanian Government statutory authority)

Former Directorships in Last Three Years
Development Australia Fund

Special Responsibilities
Chairman Audit, Finance and Risk Committee
Member of the Nomination Committee
Member of the Remuneration Committee

Interests in Shares and Options
535,715 Indirect

Cass O'Connor
Bachelor of Business, University of Technology, Sydney, GAICD

Experience and Expertise
Cass O'Connor has extensive experience in private equity and investment banking, having been directly involved in operations, mergers and acquisitions, asset sales and work-outs across a range of industries.

Other Current Directorships
Lifetime Care and Support Authority (NSW Government)
McGrath Group Limited
The Matilda Rose Early Intervention Centre
Motor Accidents Authority (NSW Government)

Former Directorships in Last Three Years

Aurora Community Television Limited

Pleasure State Pty Limited

Special Responsibilities

Chairman Remuneration Committee

Member of the Audit, Finance and Risk Committee

Member of the Nomination Committee

Interests in Shares and Options

100,000 Indirect

COMPANY SECRETARY

The Company Secretary, Adrian Martin, is a CPA and holds a BComm from University of Western Sydney and a Masters of Business Administration from Deakin University. Adrian was appointed to the position on 1 April 2010. Adrian also holds the position of Financial Controller. Before joining Keybridge Capital Limited in 2007, Adrian worked with Allco Finance Group as a Senior Finance Manager working initially with Record Investments and later in the Funds Management Division. Prior to Allco Finance Group, Adrian worked in the United Kingdom in various senior commercial roles and at Unilever Australia in the areas of Logistics and Finance.

INDEMNITIES AND INSURANCE

In addition to the amounts disclosed for remuneration of Directors and Key Management, Keybridge Capital pays a premium each year in respect of Directors and Officers insurance. In accordance with normal commercial practice, disclosure of the premium payable under, and the nature of the liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

MEETINGS OF DIRECTORS

In addition to scheduled meetings of the Board, the Company has an Audit, Finance and Risk Committee, Remuneration Committee and Nomination Committee. The numbers of meetings of the Board of Directors and of each Committee held during the year ended 30 June 2010, and the numbers of meetings attended by each Director were:

	Number of meetings attended	Number of meetings held during the time the directors held office during the financial year
Board		
Irene Lee – Chairman	11	11
Mark Phillips	11	11
Michael Perry	11	11
Cass O'Connor*	8	8
Audit, Finance and Risk Committee		
Michael Perry – Chairman	4	4
Cass O'Connor+	3	3
Irene Lee++	2	2

** From 16 September 2009.*

+ From 30 September 2009.

++ From 2 February 2010.

	Number of meetings attended	Number of meetings held during the time the directors held office during the financial year
Remuneration Committee		
Cass O'Connor – Chairman++	1	1
Michael Perry+	1	1
Nomination Committee		
Irene Lee – Chairman	0	0
Mark Phillips	0	0
Michael Perry	0	0
Cass O'Connor++	0	0

+ To 29 September 2009.

++ From 30 September 2009.

REMUNERATION REPORT

This Remuneration Report comprises five sections as follows:

1. Organisational context
2. Summary of Directors and senior executives
3. Principles of Keybridge's approach to remuneration
4. Share trading policy – hedging of company securities
5. Details of Directors' and senior executives' remuneration

This Remuneration Report has been prepared for the Company and the Group for the year ended 30 June 2010 in accordance with section 300A of the Corporations Act, associated regulations and Australian Accounting Standard AASB 124 Related Party Disclosures. The Remuneration Report has been audited by the Company's Auditor as required by section 308(3C) of the Corporations Act. The Remuneration Report forms part of the Directors' Report.

1. Organisational Context

1.1 Business Performance

A summary of Keybridge Capital's business performance, as measured by a range of financial indicators, is outlined in the table below. For further discussion on financial performance, refer to the Managing Director's Report and Review of Operations in the Director's Report.

	2010	2009	2008	2007
(Loss)/profit before net financing expense/income, impairment, depreciation and amortisation and income tax (A$000's)	(7.8)	39.2	67.5	17.7
(Loss)/profit after impairment expenses before net financing expense/income and income tax (A$000's)	(33.3)	(112.3)	33.7	7.2
(Loss)/profit for the year attributable to members of Keybridge Capital Limited (A$000's)	(49.9)	(129.1)	20.8	4.1
Share price at year end (A$)	0.084	0.088	0.68	2.35
Basic (loss)/earnings per share (cents)	(29.02)	(75.05)	12.2	5.5
Dividends paid per share (cents)	Nil	Nil	11.6	2.3

1.2 Remuneration at Keybridge Capital

Keybridge Capital adopted a new strategy and established a new Board and management in October 2006. At that time, the Company implemented remuneration arrangements for executives comprising fixed remuneration, short-term discretionary incentives and a Director and Employee Share Scheme, which was to act as an equity-based retention scheme.

Given the difficult financial conditions currently being experienced by the Company, it was appropriate that an amended remuneration structure be implemented. This structure needed to balance the ability of the Company to pay, with the interests of the Company, in retaining and motivating key executives. With this in mind, the Board developed a new remuneration plan effective for the 2010 and 2011 financial years that comprises fixed remuneration, reduced cash retention payments and the allocation of Keybridge Capital Limited ordinary shares ("shares"). The amended remuneration structure is explained in Section 3 below.

2. Summary of Directors and senior executives

Specific remuneration disclosures for the Directors and senior executives are included in this report:

2.1 Directors

As at 30 June 2010 the Directors of the Company were:

- Irene Lee, Non-Executive Chairman
- Michael Perry, Non-Executive Director
- Cass O'Connor, Non-Executive Director (appointed 16 September 2009)
- Mark Phillips, Managing Director

There have been no appointments to the Board between the balance date and the date of this report.

2.2 Senior executives

The following persons were senior executives of the Group during the 2010 financial year:

- Managing Director, Mark Phillips
- Company Secretary, Adrian Martin (appointed 1 April 2010)
- Chief Financial Officer, Karen Penrose (resigned 31 March 2010)
- Chief Investment Officer, Ian Pike (resigned 11 December 2009)

3. Principles of Keybridge Capital's approach to remuneration

3.1 Overview of strategy and remuneration policy

In the current business environment, and given Keybridge Capital's financial position and operating constraints, the Company's approach to remuneration reflects a balance between the need to motivate, attract and retain key employees and the need to be economical in managing operating expenses.

The Company's remuneration policy is structured around annually-reviewed fixed fees for the Chairman and Non-Executive Directors and fixed and retention-based elements for executives, including the Managing Director.

The Director and Employee Share Scheme instituted in 2006 is to be wound up, with all Directors and employees already having surrendered their entitlements under that Scheme.

As announced by the Company in February 2010, in order to retain and motivate the Company's management team, the Company introduced new remuneration arrangements in 2010 which included the adoption of an additional component of at-risk remuneration, the Employee Equity Plan (details of the Employee Equity Plan are set out in section 3.3.2).

	Chairman and Non-Executive Directors	Senior executives, including the Managing Director
Fixed remuneration		
Fees	Yes	No
Salary	No	Yes
Superannuation	Yes[a]	Yes
Retention	No	Yes
Other benefits	Yes	Yes[b]
Performance-based remuneration		
Short-term	No	Yes
Long-term	No	Yes[d]
Equity-based retention awards	Yes[c]	Yes[c]
Termination benefits		
Termination payments to former executives	No	Yes

(a) The Chairman and Non-Executive Directors have the right to elect to salary sacrifice a portion of their fees towards superannuation payments.

(b) Other benefits include car parking and costs associated with services related to employment (inclusive of applicable fringe benefits tax).

(c) The Directors and senior executives received equity-based retention grants under the Director and Employee Share Scheme in connection with the Company's change of strategy in October 2006 (discussed further in section 3.3.2).

(d) The senior executives were granted performance rights under the Employee Equity Plan adopted by the Board in March 2010 (discussed further in section 3.3.2).

Each of these elements of remuneration is explained in further detail in the sections below.

3.2 Chairman and Non-Executive Directors

Fees and other benefits

For the 12 months to June 2010 the annual fee payable to the Chairman was $120,000 (plus 9% superannuation) and to each Non-Executive Director was $60,000 (plus 9% superannuation). These fees are unchanged since October 2006. There are no additional fees for chairing or being a member of a Committee. The fees to the Chairman and Non-Executive Directors were recommended by the Remuneration Committee and set by the Board within a maximum annual aggregate amount of $525,000 being the amount approved at the Annual General Meeting on 28 November 2007. The aggregate amount of fees paid in the 2010 financial year was $247,442.

Board members are also entitled to be reimbursed for expenses properly incurred by them in attending any meeting or otherwise in connection with the business or affairs of the Company, in accordance with the Company's Constitution.

Consistent with best practice, the Chairman and Non-Executive Directors do not receive retirement allowances, bonuses or other performance-based incentive payments.

The structure and quantum of fees are reviewed annually and determined by the Board, after taking into account internal analysis and market practices among appropriate comparable companies. The Board also considers the time commitments being devoted by Keybridge Capital's relatively small Board as well as the level of remuneration required to attract and retain directors of an appropriate calibre.

Equity-based retention awards

The Chairman and Non-Executive Directors then on the Board had been issued shares under the Director and Employee Share Scheme on terms approved by shareholders at the Annual General Meeting on 26 October 2006. The issuance of shares under that Scheme reflected a price of $1.25, which was materially above the Company's current share price and its net tangible asset backing. Details of the shares granted to the Chairman and Non-Executive Directors under the Director and Employee Share Scheme (including details of shares vested during the year) are set out in section 5.1.1 of this Remuneration Report.

During the 2010 financial year, all Directors surrendered their rights under this Director and Employee Share Scheme. The Chairman and Non-Executive Directors are not participants in any new share scheme.

3.3 Executive Remuneration

Keybridge Capital's remuneration has been structured to be market competitive and retain and motivate a small team of employees capable of delivering the Company's business objectives. Total remuneration for executives has consisted of a mix of 'fixed' and 'performance-based' elements. In addition, executives received equity-based grants in 2006 in the form of shares under the Director and Employee Share Scheme. All executives surrendered all their rights under this Scheme during the 2010 financial year.

The Board has approved new remuneration arrangements for executives for the 2010 and 2011 financial years. These new arrangements have two key components:

3.3.1 Fixed remuneration

The fixed element provides a regular base remuneration that reflects the applied professional competence of each executive according to his/her knowledge, experience and accountabilities. The remuneration for each employee has been set having regard to market rates and is in accordance with an independent review undertaken on behalf of the Board. Executives' fixed remuneration comprises salary and other benefits (including statutory superannuation contributions) that may be taken in an agreed form, including cash, leased motor vehicles and additional superannuation, provided no extra cost is incurred by the Company.

3.3.2 Performance-based reward

The performance-based element of executive remuneration relates to retention payments to be made in around August each year. Approximately a half of these payments are designed to be made in cash (Short Term Incentive) and half in fully paid ordinary shares (Long Term Incentive). Both these components are performance-based, and are subject to key performance indicators which relate to:

- Reductions in, and management of, outstanding corporate borrowings;
- Profitability;
- Stakeholder, Board and team management; and
- Business development.

In the case of the Managing Director, the issue of shares is subject to shareholder approval. The Group intends to seek shareholders approval at the Company's Annual General Meeting on 29 September 2010.

Long Term Incentive (LTI)

Director and Employee Share Scheme (Old Plan)

In October 2006 the Company initiated a Director and Employee Share Scheme, as an equity-based retention incentive, when the Company was establishing its new board and management team. The shares issued under that Scheme were on terms approved by shareholders at the Annual General Meeting on 26 October 2006. A total of 5,975,000 shares were issued under that Scheme to 17 June 2007. All issued shares have now been surrendered.

The key terms upon which the shares under the Director and Employee Share Scheme had been issued include:

- The majority of shares had an issue price of $1.25 per share (except for 525,000 shares granted in 2007 which had an issue price of $2.27 per share);
- Limited recourse, interest free loans were provided by the Company to fund the acquisition of the shares;
- Between 75% and 100% of the cash value of dividends paid on the shares during the vesting period were to be applied towards part repayment of the loan, with up to 25% of the cash value of dividends being remitted to the participants to assist fund their personal tax liability on the dividends;
- Other than dividends, there was no payment of cash by the Company to participants;
- The limited recourse loan was to be repaid within five years from the date of issue (or the shares surrendered in full satisfaction of the loan);
- Shares were to vest progressively over periods up to three years from date of issue, subject to participants remaining employed with the Company; and
- Once vested, shares were subject to a non-selling period of 12 months and may only have been dealt with once the loan had been repaid.

Employee Equity Plan (New Plan)

As previously discussed, in order to retain and motivate the Company's management team, the Company introduced new remuneration arrangements in 2010, which included reduced cash retention payments and introduced a new Employee Equity Plan. Under this Employee Equity Plan, participants are granted performance rights for the financial years ending 30 June 2010 (Year 1) and 30 June 2011 (Year 2) entitling them to ordinary shares in the Company, subject to the satisfaction of the performance conditions.

If all the performance conditions are met in the respective year, 100% of the performance rights granted for that year will vest. In the event that an employee fails to satisfy all the performance conditions, the percentage of performance rights which vest will be determined by the Board in it its absolute discretion by reference to the employee's level of performance against the performance conditions over the relevant performance period. If, for any reason it is not possible to ascertain whether a performance condition or any aspect thereof has been satisfied, the Board shall determine whether the performance condition is deemed to have been satisfied in its absolute discretion.

Across all executives and employees, the maximum number of shares that may be issued in each year is as follows:

- 2010: 4,150,000
- 2011: 4,616,666

Upon vesting of the performance rights, the employee will be allocated one fully paid ordinary share in the Company for each performance right vested.

An amount equivalent to any dividends that would have been received by the participants had they held the shares from the date of grant of the performance rights until the date that the shares were actually allocated to them upon vesting of the performance rights (less any tax payable), will be paid to participants as soon as practicable following the allocation of the shares.

Shares allocated on vesting of the performance rights in each of Year 1 and Year 2 are subject to the following restrictions:

- an employee may not sell or otherwise deal with the shares for a period of one year commencing from 30 June of the year in which the performance rights vest, at which point an employee will be able to deal with 50% of the shares; and
- an employee may not sell or otherwise deal with the remaining 50% of the shares for a further one year period.

That is, in respect of Year 1, 50% of the shares will be released from the restriction on 30 June 2011, and the remaining 50% on 30 June 2012. In respect of Year 2, 50% of the shares will be released from the restriction on 30 June 2012, and the remaining 50% on 30 June 2013.

An employee will continue to be unable to sell or otherwise deal with the Shares until the earlier of the following dates:

- the date the Board notifies the employee that it has approved a request from an employee that the shares be released;
- the date on which an employee ceases employment; and
- 7 years from the Grant Date.

If a participant ceases employment due to resignation or termination by the Company for misconduct or breach of duty, any unvested performance rights lapse. In addition, in the case of termination by the Company for misconduct or breach of duty, any shares which have been allocated on vesting of the performance rights that remain subject to the sales restrictions (discussed above), will be deemed by the Board to have been forfeited.

If a participant ceases to be an employee of the Company for any reason other than resignation or termination for misconduct or breach of duty and provided that cessation occurs at least 3 months into the relevant performance period, any unvested performance rights will vest on a pro-rata basis to reflect the proportion of the applicable performance period actually worked, subject to the satisfaction of the performance conditions. In addition, any shares allocated on vesting of the performance rights that remain subject to the sales restrictions (discussed above), will be released.

Managing Director

The terms of the grant of performance rights to the Managing Director under the Employee Equity Plan differ from other participants in the following respects:

- Treatment of performance rights on termination of employment: If the Managing Director ceases employment due to termination by the Company for misconduct or breach of duty, any unvested rights lapse. In addition, any shares which have been allocated on vesting of the Rights that remain subject to the sales restrictions (discussed above), will be deemed by the Board to have been forfeited.
- If the Managing Director ceases to be an employee of the Company for any reason other than termination for misconduct or breach of duty and provided that cessation occurs at least 3 months into the relevant performance period, any unvested rights will vest on a pro-rata basis to reflect the proportion of the applicable performance period actually worked, subject to the satisfaction of the performance conditions. In addition, any shares allocated on vesting of the rights that remain subject to the sales restrictions (discussed above), will be released.
- Dividend equivalent payment: No dividend equivalent payment will be made to the Managing Director in respect of the grant in Year 1. In relation to the performance rights to be granted in respect of Year 2, the Board has determined that an amount equivalent to any dividends that would have been received by the Managing Director had he held the shares from the date of grant of the performance rights until the date that the shares were actually allocated to him upon vesting of the performance rights (less any tax payable), will be paid as soon as practicable following the allocation of the shares.

As noted above, shareholder approval will be sought at the AGM for the grant to the Managing Director.

Service Agreements for senior executives (including the Managing Director)

Employment conditions, including basic remuneration entitlements, for the Company's senior executives are formalised in service agreements. Key features are shown in the following table:

Name	Term of contract	Notice period by either party	Termination benefit*
Managing Director, Mark Phillips	No Fixed Term	3 months	12 months of current base annual salary
Company Secretary, Adrian Martin	No Fixed Term	3 months	Nil

** A termination benefit is not payable in the case of dismissal.*

4. Share Trading Policy – Hedging of Company Securities

Keybridge Capital's Share Trading Policy sets out the Company's position regarding hedging of vested and unvested Keybridge Capital securities. The policy provides that:

- Directors and senior executives are prohibited from entering into hedging transactions in relation to securities that have not yet vested, or that are held subject to a holding lock or restriction on dealing under an employee share plan operated by the Company;
- clearance must be obtained from an approving officer prior to entering into a hedging transaction in relation to vested securities; and
- notification of any hedging transaction must be made in accordance with the Policy.

Any breach of the Share Trading Policy is reported to the AFRC and the Board. A breach of the Policy by an employee may lead to disciplinary action, including dismissal in serious cases. It may also be a breach of law.

Further details are included on page 17 of this Annual Report.

5. Details of Directors' and senior executives' remuneration

5.1 Total remuneration paid or payable to Non-Executive Directors

Total remuneration received by the Chairman and Non-Executive Directors in the 2010 financial year was \$247,442 (2009: \$307,929). Payments and non-monetary benefits received by the Chairman and Non-Executive Directors individually are set out in the following table:

	Short-term employee benefits	Post-employment benefits		
(In AUD)	Cash fees $	Company contributions to superannuation $	Share-based payments[a] $	Total $
Chairman				
Irene Lee				
2010	120,000	10,800	4,447	135,247
2009	120,000	10,800	17,831	148,631
Non-Executive Directors				
Michael Perry				
2010	60,000	5,400	1,478	66,878
2009	60,000	5,400	6,698	72,098
Cass O'Connor[b]				
2010	32,725	2,945	–	35,670
Philip Lewis[c]				
2010	8,850	797	–	9,647
2009	55,000	4,950	–	59,950
Ian Ingram[d]				
2009	27,250	–	–	27,250
Total Chairman and Non-Executive Directors				
2010	221,575	19,942	5,925	247,442
2009	262,250	21,150	24,529	307,929

(a) Relates to shares granted to the Chairman and Non-Executive Directors under the Company's Director and Employee Share Scheme, which has been cancelled and shares surrendered back to the Trustee of the Share Scheme.

(b) Appointed 16 September 2009. (c) Resigned 25 May 2009. (d) Resigned 30 November 2008.

5.1.1 Share based payments to Non-Executive Directors

Details of the shares granted to the Chairman and Non-Executive Directors under the Director and Employee Share Scheme (including details of shares vested during the year) are set out in the table below.

	Number of Employee Shares granted	Grant date	Fair value at grant date ($)	Issue Price per share ($)	Loan repayment date	Number of Employee Shares vested during 2010	Number of Employee Shares surrendered during 2010	Number of Employee Shares as at 30 June 2010
2010								
Chairman and Non-Executive Director								
Irene Lee	1,000,000	25 August 2006	82,223	1.25	29 April 2010	333,334	(1,000,000)	–
Michael Perry	200,000	27 September 2006	38,880	1.25	29 April 2010	66,668	(200,000)	–
	1,200,000	–	121,103	–	–	400,002	(1,200,000)	–

In the 2010 financial year, all outstanding shares held by the Chairman and Non-Executive Director, Michael Perry, under the Director and Employee Share Scheme were surrendered.

No new grants of shares under the Director and Employee Share Scheme occurred during the 2010 financial year.

	Number of Employee Shares granted	Grant date	Fair value at grant date ($)	Issue Price per share ($)	Loan repayment date	Number of Employee Shares vested during 2009	Number of Employee Shares surrendered during 2009	Number of Employee Shares as at 30 June 2009
2009								
Chairman and Non-Executive Directors								
Irene Lee	1,000,000	25 August 2006	82,223	1.25	29 April 2010	333,333	–	666,666
Ian Ingram+	200,000	25 August 2006	16,445	1.25	–	66,666	(200,000)	–
Philip Lewis++	200,000	27 September 2006	38,880	1.25	–	66,666	(200,000)	–
Michael Perry	200,000	27 September 2006	38,880	1.25	29 April 2010	66,666	–	133,332
	1,600,000	–	176,428	–	–	533,331	(400,000)	799,998

+ Resigned 30 November 2008.

++ Resigned 25 May 2009.

In the 12 months to June 2009 the two Non-Executive Directors who resigned during that period surrendered their entitlement to the Trustee of the Share Scheme.

No new grants of shares occurred during the year ended 30 June 2009.

5.2 Total remuneration paid or payable to senior executives

The following table itemises the total remuneration cost recorded for senior executives, including for the Managing Director.

	Short-term employee benefits			Post-employment benefits			
(In AUD)	Cash salary $	Retention payments $	Non-monetary benefits $	Company contributions to superannuation $	Share-based payments $	Total $	Value of shares as a proportion remuneration %
Senior executives							
Mark Phillips, Managing Director							
2010	536,871	220,000	–	13,129	131,482	901,482	14.6%
2009	536,871	–	–	13,129	30,284	580,284	5.2%
Adrian Martin, Company Secretary+							
2010	44,509	17,500	–	3,282	17,894	83,185	21.5%
Ian Pike, Chief Investment Officer++							
2010	184,162	–	–	5,471	–	189,633	–
2009	381,871	–	–	13,129	15,347	410,347	3.7%
Karen Penrose, Chief Financial Officer+++							
2010	280,531	–	–	9,847	1,220	291,598	0.4%
2009	343,471	–	3,400	13,129	5,360	365,360	1.5%
Totals							
2010	1,046,073	237,500	–	31,279	150,596	1,465,898	10.3%
2009	1,262,213	–	3,400	39,387	50,991	1,355,991	3.8%

+ Appointed 1 April 2010. ++ Resigned 11 December 2009. +++ Resigned 31 March 2010.

5.2.1 Share based payments

Details of the shares granted to senior executives under the Director and Employee Share Scheme (including details of shares vested during the year) are set out in the table below.

	Number of Employee Shares granted	Grant date	Fair value at grant date ($)	Issue Price per share ($)	Loan repayment date	Number of Employee Shares vested during 2010	Number of Employee Shares surrendered during 2010	Number of Employee Shares vested as at 30 June 2010
2010								
Senior executives (including the Managing Director)								
Mark Phillips	3,000,000	18 August 2006	185,260	1.25	29 April 2010	–	(3,000,000)	–
Ian Pike+	400,000	5 October 2006	83,669	1.25	29 April 2010	133,333	(400,000)	–
Karen Penrose++	150,000	5 October 2006	30,745	1.25	29 April 2010	50,000	(150,000)	–
	3,550,000	–	299,674	–	–	183,333	(3,550,000)	–

+ Resigned 11 December 2009. ++ Resigned 31 March 2010.

No new grants of shares under the Director and Employee Share Scheme occurred during the 2010 financial year.

5.2.2 Performance rights granted in the 2010 financial year

Details of the performance rights granted to senior executives under the Employee Equity Plan are set out in the tables below.

	Number of performance rights granted[(a)]	Future years payable[(b)]	Fair value per performance rights[(c)]	Maximum value of grant[(d)]
Current				
Mark Phillips, Managing Director	4,033,333	–	$0.085	$342,833
Adrian Martin, Company Secretary+	425,000	–	$0.12	$51,000
Total	4,458,333	–	–	$393,833

+ Appointed 1 April 2010.

(a) The grants made to senior executives constituted their full LTI entitlement for FY2009/10 and were made on 29 March 2010 on the terms summarised above. In respect of the Managing Director's performance rights, shareholder approval will be sought on 29 September 2010.

(b) Performance rights vest subject to performance over the period from 1 July 2009 through to 31 August 2010 in respect of grants made in Year 1 and 1 July 2010 through to 31 August 2011 in respect of the grants made in Year 2. Performance rights lapse where the performance conditions are not satisfied on testing. Refer to the next table for details as to vesting and forfeiture of performance rights granted to participants in respect of Year 1.

(c) The fair value was calculated as at the grant date for the Company Secretary. The fair value for the Managing Director was calculated as at 6 August 2010. An explanation of the pricing model used to calculate these values is set out in Note 20 to the Financial Statements.

(d) The maximum value of the grant has been estimated based on the fair value per instrument. The minimum total value of the grant, if the applicable performance conditions are not met, is Nil.

Movement in performance rights in the 2010 financial year

	Date of grant	Number of rights granted	Vesting date	Number of rights vested[1]	Value ($) of rights vested[2]
Current					
Mark Phillips, Managing Director	29 September 2010	4,033,333	29 September 2010	–	–
Adrian Martin, Company Secretary+	26 March 2010	425,000	31 August 2010	–	–

+ Appointed 1 April 2010.

1 On the vesting of each performance right, the holder received one fully paid ordinary share in the Company. For the performance rights granted to the Company Secretary, in respect of Year 1, none of the performance rights have vested. In respect of the Managing Director's performance rights, shareholder approval will be sought on 29 September 2010.

2 The amount is based on the Company's closing share price on the grant date.

NON-AUDIT SERVICES

The Company may decide to employ its auditor (KPMG) on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit, Finance and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 45 and forms part of this report.

During the year to 30 June 2010 the following fees were paid to the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2010 $	2009 $
KPMG		
• audit and review of financial reports	141,000	140,000
• regulatory audits	5,000	5,000
• tax services	28,000	25,600
• other non-audit services	–	–
	174,000	170,600

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of Directors.

Irene Lee
Chairman

Sydney, 10 August 2010

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Keybridge Capital Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Andrew Dickinson
Partner

Sydney

10 August 2010

KPMG

Independent auditor's report to the members of Keybridge Capital Limited

Report on the financial report

We have audited the accompanying financial report of Keybridge Capital Limited (the Company), which comprises the statements of financial position as at 30 June 2010, and statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 30 and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance.

KPMG

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Keybridge Capital Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Uncertainty regarding continuation as a going concern

Without qualification to the above conclusion, we draw attention to Note 2(b) to the financial report which sets out the basis upon which the Directors believe the Group will be able to continue as a going concern.

As at 30 June 2010, the consolidated entity has a net current asset deficiency of $106,379,000 which is mainly due to the current classification of the Group's loan facility. The Group's corporate debt facility matures on 2 June 2011. As set out in Note 2(b), the Directors expect that the Group will reduce the debt levels through investment realisations and then refinance the balance at maturity.

Also, as set out in Note 18, the Group is required to meet repayment milestones totalling $40 million over the period to 31 March 2011, of which $33.5 million has been met at the date of this report. The Group's ability to meet repayment milestones, and fund daily operations is largely contingent on being able to realise assets at expected values and within expected timeframes and the ongoing receipt of investment income. The outcome of these transactions and the willingness of the banks to refinance any remaining debt at June 2011 cannot presently be determined with certainty, although, as outlined in note 2(b), the Directors expect these transactions to occur in time to meet the above repayment obligations and cash flow needs. Further, given the expected achievement of all the repayment milestones, the Directors believe it is reasonable to expect that the banks will be prepared to refinance the remaining debt balance on reasonable terms. For these reasons, the financial report has been prepared on a going concern basis. The existence of

KPMG

these uncertainties may cast doubt on the Group's ability to settle its debts as and when they fall due and to realise its assets at their carrying values.

Report on the remuneration report

We have audited the Remuneration Report included in pages 34 to 43 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Keybridge Capital Limited for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Andrew Dickinson
Partner

Sydney

10 August 2010

Statements of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2010

		Consolidated		The Company	
	Note	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Revenue and income					
Fees		1,074	3,560	1,074	1,815
Interest income	6	20,906	56,009	19,874	41,777
Dividend income		–	–	–	8,500
Net realised gain/(loss) on sale of trading assets		5,559	207	5,559	(75)
Net unrealised gain/(loss) on embedded derivatives designated through profit and loss		(7,759)	2,522	(7,778)	7,662
Unrealised gain/(loss) on available for sale investments		(90)	–	(90)	–
Unrealised gain/(loss) on revaluation of foreign currency assets		(13,897)	8,895	(11,009)	8,915
Net changes in fair value of cash flow hedges		(5,270)	(1,929)	(5,145)	(1,732)
Realised net foreign currency loss on disposal of investments		(3,711)	(50,056)	(2,745)	(36,600)
Impairment expenses	12	(25,433)	(151,550)	(27,441)	(151,550)
Operating income		(28,621)	(132,342)	(27,701)	(121,288)
Expenses					
Administration expenses		(590)	(698)	(590)	(698)
Employment costs	7	(2,687)	(2,815)	(2,687)	(2,815)
Legal and professional fees		(1,188)	(1,618)	(1,188)	(1,618)
Other expenses		(192)	(302)	(192)	(302)
Results from operating activities		(33,278)	(137,775)	(32,358)	(126,721)
Unrealised foreign currency gain on foreign currency borrowings		6,773	28,755	6,773	28,755
Realised foreign currency gain on Euro currency borrowings		4,463	–	4,463	–
Finance costs		(15,586)	(18,375)	(15,586)	(18,375)
Net finance costs/(income)		(4,350)	10,380	(4,350)	10,380
Share of profit/(loss) in equity accounted investees		–	(3,306)	–	(3,395)
Loss before income tax		(37,628)	(130,701)	(36,708)	(119,737)
Income tax (expense)/benefit	8	(12,305)	1,563	(9,172)	(2,055)
Loss for the period		(49,933)	(129,138)	(45,880)	(121,791)
Other comprehensive income/(loss), net of income tax					
Cash flow hedges:					
Effective portion of changes in fair value		3,043	(13,799)	3,043	(14,136)
Net amount transferred to profit or loss		3,689	2,310	3,601	2,820
Other comprehensive income/(loss) for the period, net of income tax		6,732	(11,489)	6,644	(11,316)
Total comprehensive loss for the period, net of income tax		(43,201)	(140,627)	(39,236)	(133,107)
		Cents	Cents		
Basic loss (cents per share)	23	(29.02)	(75.05)	–	–
Diluted loss (cents per share)	23	(29.02)	(75.05)	–	–

The Statements of Comprehensive Income are to be read in conjunction with the Notes to the Financial Statements.

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Share capital	Share based payment reserve $'000	Cashflow hedge reserve $'000	Retained earnings/ (losses) $'000	Total $'000
				Consolidated		
Balance at 1 July 2009		260,651	969	(11,244)	(128,785)	121,591
Total comprehensive income for the period						
Profit/(loss)		–	–	–	(49,933)	(49,933)
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges, net of tax	21	–	–	3,043	–	3,043
Net change in fair value of cash flow hedges transferred to profit and loss, net of tax	21	–	–	3,689	–	3,689
Total comprehensive income		–	–	6,732	–	6,732
Total comprehensive income for the period		–	–	6,732	(49,933)	(43,201)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share based payments	21	–	264	–	–	264
Balance at 30 June 2010		260,651	1,233	(4,512)	(178,718)	78,654
				The Company		
Balance at 1 July 2009		260,651	969	(11,156)	(132,909)	117,554
Total comprehensive income for the period						
Profit/(loss)		–	–	–	(45,880)	(45,880)
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges, net of tax	21	–	–	3,043	–	3,043
Net change in fair value of cash flow hedges transferred to profit and loss, net of tax	21	–	–	3,601	–	3,601
Total comprehensive income		–	–	6,644	–	6,644
Total comprehensive income for the period		–	–	6,644	(45,880)	(39,236)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share based payments	21	–	264	–	–	264
Balance at 30 June 2010		260,651	1,233	(4,512)	(178,790)	78,582

The Statements of Changes in Equity are to be read in conjunction with the Notes to the Financial Statements.

	Note	Share capital	Share based payment reserve $'000	Cashflow hedge reserve $'000	Retained earnings/ (losses) $'000	Total $'000
				Consolidated		
Balance at 1 July 2008		260,651	877	245	13,538	275,311
Total comprehensive income for the period						
Profit/(Loss)		–	–	–	(129,138)	(129,138)
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges, net of tax	21	–	–	(13,799)	–	(13,799)
Net change in fair value of cash flow hedges transferred to profit and loss, net of tax	21	–	–	2,310	–	2,310
Total comprehensive income		–	–	(11,489)	–	(11,489)
Total comprehensive income for the period		–	–	(11,489)	(129,138)	(140,627)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share based payments	21	–	92	–	–	92
Dividends paid	22	–	–	–	(13,185)	(13,185)
Balance at 30 June 2009		260,651	969	(11,244)	(128,785)	121,591
				The Company		
Balance at 1 July 2008		260,651	877	160	2,066	263,754
Total comprehensive income for the period						
Profit/(Loss)		–	–	–	(121,791)	(121,791)
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges, net of tax	21	–	–	(14,136)	–	(14,136)
Net change in fair value of cash flow hedges transferred to profit and loss, net of tax	21	–	–	2,820	–	2,820
Total comprehensive income		–	–	(11,316)	–	(11,316)
Total comprehensive income for the period		–	–	(11,316)	(121,791)	(133,107)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share based payments	21	–	92	–	–	92
Dividends paid	22	–	–	–	(13,185)	(13,185)
Balance at 30 June 2009		260,651	969	(11,156)	(132,909)	117,554

The Statements of Changes in Equity are to be read in conjunction with the Notes to the Financial Statements.

Statements of Financial Position

AS AT 30 JUNE 2010

		Consolidated		The Company	
	Note	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Cash and cash equivalents	9(a)	6,136	9,615	6,136	9,615
Trading and other receivables	10	543	327	543	327
Loans and receivables – net	12	40,075	20,124	20,544	14,499
Available for sale investments	13	990	132	990	132
Other assets	10	54	80	54	80
Total current assets		47,797	30,278	28,267	24,653
Loans and receivables – net	12	184,646	294,887	204,104	299,559
Derivative assets	14	–	8,927	–	9,622
Deferred tax assets	16	–	14,967	–	10,647
Property, plant and equipment	11	387	515	387	515
Total non-current assets		185,003	319,296	204,491	320,343
Total assets		232,830	349,574	232,758	344,996
Payables	17	4,302	3,788	4,302	3,247
Loans and borrowings	18	145,120	215,093	145,120	215,093
Derivative liabilities	19	4,754	–	4,754	–
Total current liabilities		154,176	218,881	154,176	218,340
Derivative liabilities	19	–	9,101	–	9,101
Total non-current liabilities		–	9,101	–	9,101
Total liabilities		154,176	227,982	154,176	227,441
Net assets		78,654	121,592	78,582	117,555
Equity					
Share capital	20	260,651	260,651	260,651	260,651
Reserves	21	(3,279)	(10,274)	(3,279)	(10,187)
Retained earnings		(178,718)	(128,785)	(178,790)	(132,909)
Total equity attributable to equity holders of the Company		78,654	121,592	78,582	117,555

The Statements of Financial Position are to be read in conjunction with the Notes to the Financial Statements.

FOR THE YEAR ENDED 30 JUNE 2010

		Consolidated		The Company	
	Note	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Cash flows from operating activities					
Fees received		148	1,226	148	209
Interest received		9,220	26,399	8,523	13,907
Cash settlement for FX derivative contracts		–	(82,306)	–	(74,481)
Payments to suppliers and employees		(4,277)	(8,914)	(4,278)	(8,914)
Interest payment on loan facility		(14,354)	(14,659)	(14,354)	(14,659)
Net income tax paid		(159)	(2,218)	(159)	(2,218)
Net cash used in operating activities	9(b)	(9,422)	(80,472)	(10,120)	(86,156)
Cash flows from investing activities					
Loans and receivables investments		(2,404)	6,716	–	6,123
Repayments of intercompany loans		–	–	11,864	6,560
Proceeds from sale/repayments of Loan and Receivables		67,294	283	53,724	–
Proceeds from sale of available-for-sale investments (cash distributions received)		–	291	–	291
Net cash from investing activities		64,890	7,290	65,588	12,975
Cash flows from financing activities					
Net proceeds from borrowings		–	70,990	–	70,990
Repayment of loans		(58,743)	–	(58,743)	–
Dividends paid		–	(13,184)	–	(13,184)
Net cash from/(used) in financing activities		(58,743)	57,806	(58,743)	57,806
Net increase/(decrease) in cash and cash equivalents		(3,275)	(15,376)	(3,275)	(15,376)
Cash and cash equivalents at 1 July		9,615	25,264	9,615	25,264
Effect of exchange rate fluctuations on cash held		(204)	(273)	(204)	(273)
Cash and cash equivalents at 30 June	9(a)	6,136	9,615	6,136	9,615

The Statements of Cash Flows are to be read in conjunction with the Notes to the Financial Statements.

1. REPORTING ENTITY

Keybridge Capital Limited (referred to as "Keybridge Capital" or the "Company") is a company incorporated and domiciled in Australia. The consolidated Financial Statements of the Company as at and for the year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities.

The consolidated annual Financial Statements of the Group as at and for the year ended 30 June 2010 is available upon request from the Company's registered office at Level 26, 259 George Street, Sydney NSW 2000 or at www.keybridge.com.au.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Financial Statements are general purpose Financial Statements which have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated Financial Statements of the Group and the Financial Statements of the Company comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The Financial Statements were approved by the Board of Directors on 10 August 2010.

(b) Going Concern

Over the past 12 months, the Company has been able to bring forward the realisation of some of its investments. The pace of repayments has slowed as a result of remaining investments being more difficult to realise. In particular over 70% of the remaining portfolio consists of shipping and aviation transaction. Secondary markets for these assets still tend to be affected by a lack of senior debt and by depressed secondary market pricing. Realising Keybridge's investments in these sectors in the shorter term at acceptable prices remains impractical.

Our expectation is that the realisation of these shipping and aviation investments will occur over a period of approximately three years. In the meantime, the Company's focus will be on achieving improved operational cashflow from these transactions, along with taking steps to protect existing book values.

The Company has been able to achieve all of its required repayment milestones. In the period to 30 June 2010, minimum required debt repayments were $30.5 million; those actually achieved were $64.0 million. The Company expects to meet its final repayment milestone of a further $6.5 million, which is due by March 2011, with realisations from investments in Property and Lending.

The Company remains focused on achieving further reductions in its corporate borrowings ahead of the refinancing date of June 2011. The Company anticipates commencing discussions with its lenders for the refinance of its corporate debt facility nearing the end of the first half of the 2011 financial year.

In the event that a repayment amount is unable to be met by the due date, there is a 30 day period, during which time the Group's banks may review an alternate repayment profile proposed by the Company. This arrangement has been provided to cater for the uncertain environment in which assets are being realised. If the Group's banks do not accept the alternate repayment profile and the repayment remains unmet, an Event of Default may arise.

The Directors acknowledge that before maturity of the corporate borrowings on 2 June 2011, the Company expects to seek to extend the existing lending arrangements or to refinance outstanding borrowings at that time.

The Directors have acknowledged that realising the remaining investments will take time given currently depressed secondary market prices. However, having regard to, amongst other things, cashflow forecasts over the term of the Group's corporate borrowings, including the Group's anticipated asset realisation over the next 12 to 24 months, the Directors have reached the conclusion that, based on all relevant facts, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable and is a going concern. This is confirmed in the Directors Declaration on page 103 of this Annual Report.

2. BASIS OF PREPARATION *(continued)*

(c) Basis of measurement

The consolidated Financial Statements have been prepared on the historical cost basis except for the following which are measured at fair value:

- derivative financial instruments through profit and loss;
- available-for-sale investments; and
- embedded derivatives.

The methods used to measure fair values are discussed further in Note 4.

(d) Functional and presentation currency

These consolidated Financial Statements are presented in Australian dollars, which is the Company's functional currency and the functional currency for the entire Group.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(e) Use of estimates and judgements

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the Financial Statements are described in the following notes:

- Note 12 – Loans and receivables.
- Note 13 – Available-for-sale investments.
- Note 16 – Deferred tax assets and liabilities.
- Note 24 – Financial Risk Management-Impairment Losses.

For further detail on estimates refer to Notes 12, 13, 16 and 24.

(f) Changes in accounting policies

Starting as of 1 July 2009, the Group has changed its accounting policies in the following areas:

- Presentation of Financial Statements – Note 3 (a);
- Accounting for acquisitions of non-controlling interests – Note 3 (b) (ii); and
- Determination and presentation of operating segments – Note 3 (n).

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated Financial Statements and have been applied consistently by the Group entities, except as explained in Notes 2 (f) and 3 (n), which address changes in accounting policies.

Certain comparative amounts have been reclassified to conform with the currents year's presentation.

(a) Presentation of Financial Statements

The Group applies revised AASB 101 Presentation of Financial Statements (2007), which became effective for reporting periods beginning on or after 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases.

In the Company's Financial Statements, investments in subsidiaries are carried at cost.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ii) Accounting for acquisitions of non-controlling interests

The Group has adopted AASB 3 Business Combinations (2008) and AASB 127 Consolidated and Separate Financial Statements (2008) for acquisitions of non-controlling interests occurring in the financial year starting 1 July 2009. The Group has applied AASB 127 (2008) for the acquisition of non-controlling interests. Under the new accounting policy, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions. Previously, goodwill was recognised arising on the acquisition of a non-controlling interest in a subsidiary which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange. The change in accounting policy was applied prospectively and had no material impact on earnings per share.

(iii) Associates and joint ventures (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes net of any accumulated impairment losses.

The consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated Financial Statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

(c) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Financial instruments

(i) Non-derivative financial instruments

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Cash and cash equivalents comprise cash balances, call deposits and short term deposits.

Accounting for revenue and borrowings costs is discussed in Note 3 (i) and (j).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets, subsequent to initial recognition are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items are recognised as a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Financial assets at fair value through profit or loss

Equity investments, except investments in subsidiaries, associates and joint ventures, are designated at fair value through profit or loss with changes in fair value recognised in profit or loss in the period of change.

Loans and receivables

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. The collectability of debts is assessed at reporting date and where required specific provision is made for any doubtful debts or on a collective basis for a portfolio of loans considered collectively impaired. Refer to Note 3 (d).

Loan write-offs

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from the realisation of security have been received.

Other financial liabilities

Other financial liabilities comprise loans, borrowings and other payables being measured at amortised cost using the effective interest method.

(ii) Derivative financial instruments

The Group may hold derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Fair value hedge

Changes in fair value of derivative hedging instruments are recognised in profit or loss and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in the profit or loss.

Hedge effectiveness testing

To qualify for hedge accounting the consolidated entity requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective testing) must also be demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the consolidated entity adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80% to 125% for the hedge to be deemed effective. This method is currently only performed for foreign currency hedges. Hedges used for interest rate swaps are tested for effectiveness using the Hypothetical derivative method.

Hedge ineffectiveness, if any, is recognised in the income statement in net foreign currency gains or losses.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(e) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

This loss covers loans that are impaired at balance date but which will not be individually identified as such until some time in the future. Consideration includes:

- historic loss experience;
- the estimated period between a loss occurring and that loss being identified and provided for; and
- management's experienced judgment as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater than that suggested by historical experience.

An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Future cash flows for financial assets such as ships and aircraft have taken into account longer term market indicators. Individually significant financial assets are tested for impairment on an individual basis.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(f) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

(ii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

- Leasehold improvements – 13 years.
- Furniture and fittings – 5 years.
- Computer equipment – 3 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(g) Employee benefits

(i) Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Retirement benefit obligations

Contributions to a defined contribution fund are recognised as an expense as they become payable. These are paid into a separate entity and the Group has no legal or constructive obligation to pay further amounts. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Share-based payment transactions

The fair value of performance rights granted to employees in relation to the Employee Equity Plan is recognised as an employee expense, with a corresponding increase in equity, over the period in which the shares vest. The grant date is defined as the date the contract was entered into between the Company and the participant.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date.

(h) Fees

Fees are recognised on an accrual basis over the time of the services rendered. Fees that are integrated in the effective yield of the financial assets or liabilities are included in the measurement of the effective interest rate.

(i) Revenue

Revenue comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Dividend revenue is recognised net of any franking credits.

(j) Finance expenses

Finance expenses comprise interest expense on borrowings, accrual of deferred establishment fees over the term of each loan. Foreign currency gain or losses on borrowings are disclosed separately. All borrowing costs are recognised in profit or loss using the effective interest method.

(k) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for Financial Reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(i) Tax consolidation

The Company is head entity of the tax consolidated group comprising all the Australian wholly owned subsidiaries. The entities entered into a tax sharing and funding agreement effective 27 October 2006.

Under the terms of this agreement current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate Financial Statements of the members of the tax consolidated group by reference to the carrying amounts of assets and liabilities in the separate Financial Statements of each entity and the tax values applying under consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax consolidated group and are recognised as amounts payable/(receivable) to/(from) other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by the Head entity and members as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(ii) Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivables (payables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The contribution amount arising under the tax funding arrangement is charged to the Company through the intercompany account.

(l) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(m) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing the net profit/(loss) after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(n) Segment reporting

Determination and presentation of operating segments

As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is provided to the Managing Director, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously operating segments were determined and presented in accordance with AASB 114 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly, head office expenses, and income tax assets and liabilities.

(i) Business segments

The Group comprises the following main business segments:

- Aviation.
- Lending.
- Shipping.
- Property.
- Infrastructure.
- Other.

(o) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

- AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Group's 30 June 2014 Financial Statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.
- AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Groups 30 June 2012 Financial Statements, are not expected to have any impact on the Financial Statements.
- AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 Financial Statements, are not expected to have a significant impact on the Financial Statements.
- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issue [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Group's 30 June 2011 Financial Statements, are not expected to have any impact on the Financial Statements.
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 Financial Statements, are not expected to have a significant impact on the Financial Statements.
- AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 Financial Statements, are not expected to have a significant impact on the Financial Statements.

4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value for financial assets. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Financial derivatives

The fair value of forward foreign exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

(ii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(iii) Held-to-maturity

It is considered that the fair value approximates the carrying value.

(iv) Available-for-Sale

It is considered that the fair value approximates the carrying value.

(v) Loans and receivables

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(vi) Embedded derivatives

The fair value of embedded derivatives is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(vii) Share-based payment transactions

The fair value of Performance Rights granted, relating to shares issued under the Employee Equity Plan is valued at the closing share price of a Keybridge Capital ordinary share on each grant date.

The fair value of options relating to shares issued under the Director and Employee Share Scheme was measured using a Black-Scholes methodology.

Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5. OPERATING SEGMENTS

Business segments

The Group has five reportable segments, as described below, which are the Group's strategic business segments. The strategic business segments are managed separately because they are different types of assets. For each of the strategic business segment, the Group's Managing Director reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- *Aviation:* Comprise investments in aircraft, leased for medium terms to creditworthy airlines.
- *Lending:* Predominantly senior secured loans, but also subordinated loans, to entities in a range of industries.
- *Shipping:* In the main, investments in ships and shipping portfolios chartered for medium terms to creditworthy shipping companies.
- *Property:* Includes loans supported by development and construction projects and other property related investments. The property projects underlying the Company's investments are predominantly residential, commercial and industrial projects located in Australia and a project in the United States.

5. OPERATING SEGMENTS *(continued)*

- *Infrastructure:* Investments in renewable energy projects and other infrastructure related projects.
- *Other* activities include investments in US Securitisations which have had a book value of Nil since 30 June 2008 and as such this segment does not meet any of the quantitative thresholds for determining reportable segments in 2010 or 2009.

There is no integration between the any of the reportable segments.

Comparative segment information has been represented in conformity with the requirement of AASB 8 Operating Segments.

5. OPERATING SEGMENTS *(continued)*

Business segments	Aviation		Lending		Shipping		Property		Infrastructure		Other		Consolidated	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Revenue and income														
Fees	25	524	914	1,798	85	70	–	1,056	50	112	–	–	1,074	3,560
Interest income	13,815	21,008	2,975	5,878	753	10,052	835	10,682	2,377	7,714	–	–	20,755	55,334
Unrealised gain/loss embedded derivatives and available for sale investments	(7,879)	7,663	20	(123)	–	(3,697)	–	(1,321)	–	–	–	–	(7,859)	2,522
Realised gain/loss on derivative	(10,246)	(18,103)	(1,272)	(4,531)	(3,198)	(12,054)	(1,588)	(3,664)	(6,367)	(4,466)	–	–	(22,671)	(42,818)
Realised gain/(loss) on investment realisation	–	–	5,893	–	–	282	–	–	(334)	–	–	–	5,559	282
Total revenue and income	(4,285)	11,092	8,530	3,022	(2,360)	(5,347)	(753)	6,753	(4,274)	3,360	–	–	(3,142)	18,880
Associates profit/(loss)	–	–	–	–	–	(3,306)	–	–	–	–	–	–	–	(3,306)
Less impairments	(3,930)	(8,217)	–	(29,727)	(17,393)	(39,126)	(8,677)	(57,129)	(2,379)	(17,665)	–	–	(32,379)	(151,865)
Add reversed impairments	4,403	–	–	–	1,301	–	–	–	1,170	–	72	314	6,946	314
Reportable segment loss before income tax	(3,812)	2,875	8,530	(26,705)	(18,452)	(47,779)	(9,430)	(50,376)	(5,483)	(14,305)	72	314	(28,575)	(135,976)

During the 12 months to 30 June 2010, $72,493 income was received from the US securitisation investments, which reduced the impairment provision against those investments. The book value of the US Securitisation investments remains at Nil (2009: Nil).

5. OPERATING SEGMENTS *(continued)*

Business segments	Aviation		Lending		Shipping		Property		Infrastructure		Other		Consolidated	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Gross segment assets	139,818	156,929	38,330	54,758	37,323	86,297	19,716	96,778	12,850	62,800	–	–	248,037	457,562
Less impairment provisions	(3,814)	(8,217)	(369)	(8,244)	(9,961)	(39,126)	(5,227)	(60,128)	(2,299)	(17,665)	–	–	(21,670)	(133,380)
Net segment assets	136,004	148,712	37,961	46,514	27,362	47,171	14,489	36,651	10,551	45,135	–	–	226,367	324,181

The impairments for Property and Lending, included in the Net Segment Assets for 2010, include impairment provisions recognised in 2009 for Property and in Lending, and an impairment which was expensed in the current year.

Geographic segments	Australia		United States		Europe		Other Regions		Consolidated	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Revenues	10,700	14,000	(2,095)	(847)	(3,504)	(762)	(8,242)	6,817	(3,141)	19,208
Associates profit/(loss)	–	–	–	–	–	–	–	(3,306)	–	(3,306)
Less impairments	(8,677)	(73,690)	72	(12,851)	(1,209)	(17,665)	(15,619)	(47,344)	(25,433)	(151,550)
Segment result	2,023	(59,690)	(2,022)	(13,698)	(4,714)	(18,427)	(23,861)	(43,833)	(28,574)	(135,647)
Segment assets	32,255	87,232	13,034	34,303	10,551	38,530	170,527	164,116	226,367	324,181

Shipping and Aviation investments are included in Other Regions. Property and Infrastructure investments are included in the jurisdiction of the underlying investment. Lending other than two investments, is included under Australia because of the location of the counterparties or majority of the security. The exceptions in Lending are an investment where the counterparty and the security are in the United States and one where the security is in Other Regions.

5. OPERATING SEGMENTS *(continued)*

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2010 $'000	2009 $'000
Revenues		
Total revenue for reportable segments	(3,142)	18,880
Other revenue	(46)	329
Impairments (net of reversal)	(25,433)	(151,551)
Consolidated revenue	(28,621)	(132,342)
Profit or loss		
Total profit or loss for reportable segments	(28,575)	(135,977)
Other profit or loss	(46)	329
Share of profit of equity accounted investees	–	–
Unallocated amounts: other corporate expenses	(4,658)	(5,433)
Unallocated amounts: net finance costs	(4,350)	10,380
Consolidated loss before income tax	(37,628)	(130,701)
Assets		
Total assets for reportable segments	226,367	324,181
Other unallocated amounts	6,463	25,393
Consolidated total assets	232,830	349,574
Liabilities		
Total liabilities for reportable segments	–	–
Other liabilities	–	–
Other unallocated amounts	154,176	227,982
Consolidated total liabilities	154,176	227,982

6. REVENUE

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Interest income on bank deposits	151	675	151	675
Interest on loans and advances – third parties	20,755	55,334	19,723	39,008
Interest on loans and advances – subsidiaries	–	–	–	2,094
	20,906	56,009	19,874	41,777

Included under interest income for the year ended 30 June 2010 is a total of $2.7 million (2009: $45.2 million) accrued on impaired financial assets.

7. EMPLOYMENT COSTS

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Wages and salaries	2,285	2,034	2,285	2,034
Superannuation	136	389	136	389
Other associated personnel expenses	1	300	1	300
Expenses related to the Director and Employee Share Scheme	265	92	265	92
	2,687	2,815	2,687	2,815

8. INCOME TAX EXPENSE

(a) Recognised in the income statement

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Current tax (expense)/benefit				
Current period	39,082	18,489	41,428	16,541
Adjustment for prior periods	584	–	584	–
Total current tax	39,666	18,489	42,012	16,541
Deferred tax expense				
Offer costs	(464)	(464)	(464)	(464)
Deferred income	(105)	(384)	(105)	(227)
Unrealised FX gains and losses	1,174	(14,644)	385	(14,929)
Fair value of embedded derivative assets	27	(756)	27	(2,299)
Other	(84)	(677)	(84)	(677)
Increase in deferred income tax expense from current year timing differences not recognised	548	(16,925)	(242)	(18,596)
Increase in deferred income tax expense from current year tax losses not recognised	(39,629)	–	(41,486)	–
Increase in deferred income tax expense from prior year timing differences not recognised	5,877	–	5,870	–
Increase in deferred income tax expense from prior year tax losses not recognised	(18,766)	–	(15,626)	–
Total income tax expense	(12,305)	1,563	(9,172)	(2,055)

The Group and Company have not yet recognised deferred tax assets in relation to impairment expenses incurred during the 12 months to June 2010.

8. INCOME TAX EXPENSE *(continued)*

(b) Reconciliation between tax-expense and pre-tax net profit

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Profit/(loss) for the period	(49,933)	(129,138)	(45,880)	(121,791)
Total income tax (expense)/benefit	(12,305)	1,563	(9,172)	(2,055)
Profit excluding income tax	(37,628)	(130,701)	(36,708)	(119,737)
Prima facie income tax calculated at 30% (2009: 30%)	11,288	39,210	11,012	35,921
Losses not brought to account or not probable of realisation	28,113	(39,374)	29,946	(39,374)
Non-deductible expenses	(79)	(305)	(79)	(305)
Tax exempt income	308	2,004	308	1,703
Deferred tax written off	(52,519)	27	(50,942)	–
(Under)/over provided in prior periods	584	–	584	–
	(12,305)	1,563	(9,172)	(2,055)

(c) Income tax recognised in other comprehensive invoice

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Gain/(loss) on cash flow hedging instruments	2,885	(4,924)	2,847	(4,851)
	2,885	(4,924)	2,847	(4,851)

For further details of tax losses not recognised refer to Note 16 Deferred tax assets and liabilities.

9. CASH AND CASH EQUIVALENT

(a) Cash and cash equivalents

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Cash at Bank	2,628	1,563	2,628	1,563
Term deposits	67	65	67	65
11am deposits	3,441	7,987	3,441	7,987
	6,136	9,615	6,136	9,615

9. CASH AND CASH EQUIVALENT *(continued)*

(b) Reconciliation of cash flow from operating activities

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Cash flows from operating activities				
Profit for the period	(49,933)	(129,138)	(45,880)	(121,791)
Adjustments for:				
Depreciation	128	133	128	133
Amortisation of FX cash flow reserve	5,270	1,929	5,145	1,732
Non-cash adjustment – interest accrued	(11,686)	(29,611)	(11,351)	(25,775)
Non-cash adjustment – net of fees received and accrued	(925)	(2,334)	(925)	(1,606)
Non-cash adjustment – intercompany interest	–	–	–	(2,094)
Non-cash adjustment – embedded derivative income	–	(2,390)	–	(7,531)
Non-cash adjustment – tax expense/(benefit)	12,305	(1,562)	9,172	2,055
Non-cash adjustment – employee and other expenses	815	(254)	815	(254)
Non-cash adjustment – impairment expenses	25,433	151,550	27,441	151,550
Non-cash adjustment on fair value of financial instruments	14,220	(69,900)	10,383	(75,552)
Non-cash adjustment investments in associates	–	3,306	–	3,395
Realised (gain) on sale of investment	(5,559)	(339)	(5,559)	(57)
Dividends received	–	–	–	(8,500)
Operating profit before changes in working capital and provisions	(9,932)	(78,610)	(10,630)	(84,294)
Increase/(decrease) in payables	(563)	(3,361)	(563)	(3,361)
	(10,495)	(81,970)	(11,194)	(87,655)
Interest paid	1,232	3,717	1,232	3,717
Income taxes paid	(159)	(2,218)	(159)	(2,218)
Net cash from operating activities	(9,422)	(80,472)	(10,120)	(86,156)

10. TRADE AND OTHER RECEIVABLES

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Interest receivables from loans	543	327	543	327
Other receivables	54	80	54	80
	596	407	596	407

11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated and The Company					
	Leasehold improvements $'000	Office equipment $'000	Furniture and fittings $'000	Computer software $'000	Computer hardware $'000	Total $'000
Cost or deemed cost						
Balance at 1 July 2008	318	63	151	147	74	753
Additions	–	–	–	–	–	–
Disposals	–	–	–	–	2	2
Balance at 30 June 2009	318	63	151	147	76	755
Cost or deemed cost						
Balance at 1 July 2009	318	63	151	147	76	755
Additions	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Balance at 30 June 2010	318	63	151	147	76	755
Depreciation and impairment losses						
Balance at 1 July 2008	24	20	14	30	19	107
Depreciation for the year	36	19	18	37	22	132
Disposals	–	–	–	–	–	–
Balance at 30 June 2009	60	39	32	67	41	239
Balance at 1 July 2009	60	39	32	67	41	239
Depreciation for the year	36	18	18	34	22	129
Disposals	–	–	–	–	–	–
Balance at 30 June 2010	96	57	50	101	63	368
Carrying amounts						
At 30 June 2009	258	24	119	80	35	515
At 30 June 2010	222	6	101	46	13	387

12. LOANS AND RECEIVABLES

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
	Carrying amounts		Carrying amounts	
Individually impaired loans (gross)	155,883	368,626	168,522	367,161
Less: allowance for impairment	21,669	73,253	15,545	41,509
Less: amounts written off	–	17,304	17,345	17,304
Carrying amount	134,125	278,069	135,632	308,347
Loans not individually impaired	90,506	97,070	89,016	8,760
Less: allowance for collective impairment	–	60,128	–	3,050
Carrying amount	90,506	36,942	89,016	5,710
Total carrying amount of loans and receivables	224,721	315,011	224,648	314,058
Current assets				
Aviation	–	–	–	–
Lending	28,695	12,080	20,554	7,740
Property	16,607	1,455	–	170
Infrastructure	–	6,589	–	6,589
Less: allowance for impairment expenses	(5,227)	–	–	–
	40,075	20,124	20,554	14,499
Non-current assets				
Aviation	138,828	147,041	138,828	147,041
Lending	9,147	42,734	140	22,309
Shipping	37,298	87,207	27,537	44,371
Property	3,109	95,615	–	8,590
Infrastructure	12,847	56,161	12,847	56,161
Other – US securitisation	–	–	–	–
Loans to subsidiaries	–	–	40,437	66,136
Deferred income	(140)	(491)	(140)	(491)
Less: allowance for impairment expenses	(16,443)	(133,380)	(15,545)	(44,559)
	184,646	294,887	204,104	299,559

12. LOANS AND RECEIVABLES *(continued)*

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
	Impairment provisions		Impairment provisions	
Income statement charge				
Loan impairment expenses				
Collective provision	–	60,128	–	3,050
Reversal of allowances no longer required	(6,946)	(314)	(5,645)	(314)
New allowances	32,379	73,567	15,741	130,645
Amounts written off	–	17,304	17,345	17,304
Total recognised in income statement	25,433	150,685	27,441	150,685
Breakdown				
Individually assessed allowances	25,433	90,557	27,441	147,635
Collectively assessed allowances	–	60,128	–	3,050
Total recognised in income statement	25,433	150,685	27,441	150,685
Total outstanding allowance				
Individually assessed allowances	21,669	73,252	15,545	41,509
Collectively assessed allowances	–	60,128	–	3,050
	21,669	133,380	15,545	44,559

13. AVAILABLE-FOR-SALE INVESTMENTS

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Investment in US securitisations	–	–	–	–
Less: allowance for impairment expenses	–	–	–	–
Shares in ASX list company	990	132	990	132
	990	132	990	132
Allowance for impairment				
Opening balance	–	(17,755)	–	(17,755)
Impairment loss for the year	–	–	–	–
Investment write-offs 2009	–	17,755	–	17,755
Balance at 30 June 2010	–	–	–	–

Notes to the Financial Statements

14. DERIVATIVE ASSETS

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Non-current asset				
Embedded derivatives	–	8,927	–	9,622
	–	8,927	–	9,622

In determining the value of any embedded derivatives in its investments, the Group relies on its own assessment of the outlook for individual investments supported by independent expert valuations.

Embedded derivatives reflect the Group's share of profit from an investment above a base return. The share of profit is expected to be realised on sale or repayment of an investment.

As at 30 June 2010, embedded derivatives that related to investments in Aviation were written down to Nil as a result of aircraft values declining over the last 12 months.

15. EQUITY ACCOUNTED INVESTMENTS IN ASSOCIATES

The Group's share of net loss in its equity accounted investments in associates for the year ended 30 June 2010 was $3.8 million loss (June 2009: $3.4 million loss). The loss relates to one of the Group's equity accounted investments, being Bridge Infrastructure Capital Pty Limited (BIC). This accounting loss was not recognised in the results for the year ended 30 June 2010.

However the Group has recognised impairments against two investments in Infrastructure and one investment in Shipping. For the period to 30 June 2010, the Group's carrying amount in the four investments, total $38.0 million (net of equity accounted losses) and is recognised in Loans and Receivables.

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Equity investments in Associates#	–	–	–	–
Profit on investments in Associates	–	(3,306)	–	(3,395)
	–	(3,306)	–	(3,395)
Additional investment made by way of loans (net of impairments)	37,913	73,967	28,681	63,517
	37,913	70,661	28,681	60,121

 # Share in capital of less than $52 is rounded down to zero.

Summary financial information for equity accounted investments in associates, not adjusted for the percentage ownership held by the Group, is presented as follows:

	Assets $'000	Liabilities $'000	Net Assets $'000	Revenues $'000	Expenses $'000	Net Profit or (Loss) $'000	Profit share $'000
2009							
Associates	332,910	(343,831)	(10,921)	33,337	(37,926)	(4,589)	(3,306)
2010							
Associates	183,868	(199,217)	(15,349)	32,154	(36,802)	(4,648)	–

16. DEFERRED TAX ASSETS AND LIABILITIES

At 30 June 2010 a deferred tax benefit of $57.8 million (2009: $39.6 million) mostly related to prior year impairment expenses now being written-off and recognised as a tax deduction and for temporary differences of $5.3 million (2009: Nil) was not recognised as a deferred tax assets. The deferred tax assets will only be realised when sufficient future assessable income is earned.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Deductible temporary differences	5,329	–	6,138	–
Tax losses	57,849	39,652	56,813	39,374
	63,178	39,652	62,951	39,374

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

Movement in deferred tax assets during the year

	Balance 30 June 2008	Recognised profit or loss	Recognised in equity	Balance 30 June 2009	Recognised in profit or loss	Recognised in equity	Balance 30 June 2010
				Consolidated			
Loans and receivables	6,095	(5,762)	–	333	(78)	–	255
Available-for-sale financial assets	2,037	(2,037)	–	–	–	–	–
Derivatives	4,414	(14,645)	4,924	(5,307)	1,174	(2,885)	(7,017)
Loans and borrowings	971	305	–	1,276	(78)	–	1,197
Share-based payments	68	–	–	68	–	–	68
Capitalised – issuance costs	1,394	(464)	–	929	(464)	–	465
Tax loss carry-forwards	–	18,182	–	18,182	39,667	–	57,849
Other items	64	(579)	–	(515)	(6)	–	(521)
Deferred tax assets not recognised	–	–	–	–	(52,297)	–	(52,297)
	15,043	(5,000)	4,924	14,967	(12,083)	(2,885)	–

16. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

	Balance 30 June 2008	Recognised profit or loss	Recognised in equity	Balance 30 June 2009	Recognised in profit or loss	Recognised in equity	Balance 30 June 2010
				The Company			
Loans and receivables	7,314	(7,147)	–	167	(78)	–	89
Available-for-sale financial assets	2,037	(2,037)	–	–	–	–	–
Derivatives	3,758	(14,931)	4,851	(6,322)	386	(2,847)	(8,783)
Loans and borrowings	971	305	–	1,276	(78)	–	1,197
Share-based payments	68	–	–	68	–	–	68
Capitalised – issuance costs	1,394	(464)	–	929	(464)	–	465
Tax loss carry-forwards	–	15,042	–	15,042	41,771	–	56,813
Other items	65	(579)	–	(514)	(6)	–	(520)
Deferred tax assets not recognised	–	–	–	–	(49,329)	–	(49,329)
	15,607	(9,812)	4,851	10,647	(7,799)	(2,847)	–

17. PAYABLES

	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Loan facility interest expense	1,606	1,017	1,606	1,017
Employment related expenditure	563	626	563	626
Professional fees payable	523	598	523	598
Other fees payable	58	1,548	58	1,006
Bank debt fees payable	1,552	–	1,552	–
	4,302	3,788	4,302	3,247

18. LOAN AND BORROWINGS

Loans and borrowings consist of a loan facility between the Group and the Commonwealth Bank of Australia, Bank of Western Australia Limited, St.George Bank Limited and National Australia Bank Limited.

The key terms and conditions of the secured bank loans include:

- maturity of 2 June 2011;
- a review event requiring a minimum level of cash income;
- interim repayments totalling $30.5 million during the period to June 2010, which have been met, and a further $40 million over the period to March 2011, of which $6.5 million remains to be met;
- proceeds from investment income and asset realisations to be applied to meet operating expenses, interest expense and reduce corporate borrowings;
- borrowing margin of 3.75% per annum; and
- a fee of 1.75% per annum which accrues monthly and is payable on final maturity of the secured bank loans.

Refer to Note 24 for further information about exposure to financial risks and liquidity.

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Current liabilities				
Secured bank loans	145,120	215,093	145,120	215,093
	145,120	215,093	145,120	215,093

At 30 June 2009 the level of impairment provisions recognised in the Financial Statements resulted in a breach of the financial undertakings in the Group's secured bank loans. As a result, the Group's secured bank loans were recognised as current liabilities at balance date.

Consolidated and The Company							
				30 June 2010		30 June 2009	
	Currency	Nominal interest rate	Year of Maturity	Face value $'000	Carrying amount $'000	Face value $'000	Carrying amount $'000
Secured bank loan	AUD	8.62%	2011	27,111	27,111	38,567	38,567
Secured bank loan	USD	4.69%	2011	118,009	118,009	155,672	155,672
Secured bank loan	EUR	–	–	–	–	20,854	20,854
Total interest-bearing liabilities		–	–	145,120	145,120	215,093	215,093

The nominal interest rates relate to the prevailing floating base interest rate at 30 June 2010. The margin on the Group and Company's secured bank loans of 3.75% per annum. The Group and Company has also entered into interest rate hedging arrangements. Refer to Note 24 – Interest Rate Risk for further information.

19. DERIVATIVE LIABILITIES

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Current liabilities				
Interest rate swaps	4,754	–	4,754	–
	4,754	–	4,754	–
Non-current liabilities				
Interest rate swaps	–	9,101	–	9,101
	–	9,101	–	9,101

As at 30 June 2010, the fixed rate of interest under the interest rate swaps are above market interest rates. As a result the instrument is recognised as a derivative liability.

The Group uses interest rate swaps to hedge variable rate loans to fixed rates of interest. These are designated as cashflow hedges.

20. CONTRIBUTED EQUITY

(a) Issued and Paid-up Capital

	The Company	
	2010 $'000	2009 $'000
172,070,564 (30 June 2009: 172,070,564) ordinary shares fully paid	260,651	260,651

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid on, the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

(b) Movement in ordinary share capital

	The Company	
	2010 $'000	2009 $'000
Opening balance 1 July	260,651	260,651
Closing balance 30 June	260,651	260,651

(c) Shares issued not paid

In December 2009, the Group's Board approved a new remuneration plan covering the two financial years to 30 June 2011. The Company initiated an Employee Equity Plan ("Plan" or "Employee Shares") as an equity-based retention incentive. The shares will be issued under the Performance Rights ("Rights") that were granted by the Board in March 2010.

The Plan comprises the issue of up to 4.15 million Keybridge Capital Limited ordinary shares ("shares") in Year 1 and 4.6 million shares in Year 2. Combined these shares would represent 5% of the Group's issued and quoted capital. The issue of shares is subject to meeting specific key performance indicators and vesting conditions.

20. CONTRIBUTED EQUITY *(continued)*

The key performance indicators for the cash retention payments and share awards relate to:

- Reductions in outstanding corporate borrowings;
- Profitability;
- Stakeholder and Board management; and
- Development of post-June 2011 business plan.

Additionally, in the case of the Managing Director, the issue of shares is subject to shareholder approval. The Group intends to seek shareholder approval at the Group's Annual General Meeting in September 2010.

The initial Rights were issued at $0.12 per share. The price of $0.12 per share was the closing quoted price of the shares on the 26 March 2010 when the Rights were granted. On the 29 May 2010, further Rights were issued at $0.09 per share.

Following their award, the Retention Shares would be subject to a sales restriction as follows:

- 50% till end of June following the award.
- 50% till end of the second June following the award.

These sale restrictions would cease at the time an employee ceases to be employed by Keybridge. This does not apply if the cessation of employment was caused by dismissal of the employee for malpractice. In this case, the Company will seek contractual terms that require the employee to surrender vested and unvested shares back to the Company. This lifting of the sale restriction will not apply if it would cause the relevant shares to be considered part of the employee's termination payment.

	Grant date	Number of Instruments	Vesting conditions	Contractual Life of Grant
Performance Rights granted to employees on	26 March 2010	3,358,333	Meeting agreed to KPI's	2 years
	29 May 2010	1,375,000	Meeting agreed to KPI's	2 years
Managing Director*	29 September 2010	4,033,3333	Meeting agreed to KPI's	2 years
		8,766,666		

** Subject to shareholder approval on 29 September 2010.*

	Grant Price	No. of Performance Rights	Grant Price	No. of Performance Rights
	2010		2009	
Outstanding at 1 July	–	–	–	–
Granted during the period	0.12	3,358,333	–	–
Granted during the period	0.09	1,375,000	–	–
Granted during the period*	0.085**	4,033,333	–	–
Outstanding at 30 June	–	8,766,666	–	–

** Subject to shareholder approval on 29 September 2010.*

***The grant price for the Managing Director was calculated as at 6 August 2010.*

The fair value calculated at the grant dates is measured using the closing price of Keybridge Capital Ordinary Shares. The total fair value grant expense of $876,920 is amortised over the vesting periods, being a total of 5 months for Year 1 and 17 months for Year 2 from grant date.

20. CONTRIBUTED EQUITY *(continued)*

Old Plan

For the year ended 30 June 2009 the Company had in place the Director and Employee Share Scheme as an equity-based retention incentive, there are 5,975,000 issued shares under the Share Scheme.

The Share Scheme involved participants effectively borrowing from the Company to subscribe for the Employee Shares. The loans were limited recourse and interest free and initially at least 75% of the cash value of dividends will be applied towards part repayment of the loan. Other than dividends, there is no payment of cash by the Company to participants. The Employee Shares were subject to a holding lock until 12 months have lapsed after the date on which vesting conditions are satisfied and the loan is repaid in full.

The Employee Shares were issued at $1.25 per share (other than 525,000 shares issued at $2.27 per share). The price of $1.25 per share is materially in excess of the Company's quoted share price and its net tangible asset backing.

All the shares issued under the Director and Employee Share Scheme has been surrendered back to the Trustee.

Movements under the previous Director and Employee Share scheme:

Grant date	Number of Instruments	Vesting conditions	Contractual Life of Grant
Grant to Key Management on 18 August 2006	3,000,000	Service to March 2009	5 years
Grant to Key Management on 25 August 2006	1,200,000	3 years service	5 years
Grant to Key Management on 5 October 2006	550,000	3 years service	5 years
Grant to Key Management on 27 September 2006	400,000	3 years service	5 years
	5,150,000		
Grant to employees on 5 October 2006	300,000	3 years service	5 years
Grant to employees on 17 June 2007	525,000	3 years service	5 years
	5,975,000		
Surrendered to Trustee on 30 November 2008	(200,000)		
Surrendered to Trustee on 16 January 2009	(375,000)		
Surrendered to Trustee on 25 May 2009	(200,000)		
	5,200,000		
Held by Trustee	775,000		
Surrendered to Trustee on 29 April 2010	(5,200,000)		
Held by Trustee	5,200,000		
Held by Trustee	5,975,000		

20. CONTRIBUTED EQUITY *(continued)*

	Weighted average exercise price	No. of shares	Weighted average exercise price	No. of shares
	2010	2010	2009	2009
Outstanding at 1 July	–	5,975,000	1.34	5,975,000
Surrendered during the period	1.34	(5,200,000)	1.55	(775,000)
Transferred to Trustee	–	5,200,000	–	775,000
Outstanding at 30 June	–	5,975,000	1.34	5,975,000
Exercisable at 30 June	–	–	1.31	4,441,665

The fair value calculated at the grant dates was measured using a Black-Scholes methodology.

21. RESERVES

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Cashflow hedge reserve, net of tax	(4,512)	(11,243)	(4,512)	(11,156)
Share based payment reserve, net of tax	1,233	969	1,233	969
	(3,279)	(10,274)	(3,279)	(10,187)

Cashflow Hedge Reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cashflow hedging instruments relating to foreign exchange contracts (which are amortised over their original term) and interest rate swaps.

Share-based Payment Reserve

The share based payment reserve comprises the amortised cost of the value of shares granted under the Employee Equity Plan and the Director and Employee Share Scheme.

22. DIVIDENDS

There were no dividends paid or declared during the year by the Company.

Dividends paid in the 2009 year by the Company were:

	Cents per share	Total amount $'000	Franked / unfranked	Date of payment
2009				
Final 2008 – ordinary shares	7.6	13,185	Franked	25 September 2008
Interim 2009 – ordinary shares	–	–	–	–
	–	13,185	–	–

The Franked dividends declared or paid during the 2009 year were franked at the tax rate of 30%.

After 30 June 2010 the Directors have resolved not to declare a final dividend for the 2010 financial year.

22. DIVIDENDS *(continued)*

	Consolidated	
	2010 $'000	2009 (Restated) $'000
Dividend franking account	–	(159)
30 percent franking credits available to shareholders of Keybridge Capital for subsequent financial years	–	–

In the accounts presented for the year ended June 2009, the group had misstated its closing balance for its franking account by $8.6 million (balance in 2009 was $8.4 million). This was a result of including an estimated 2009 tax liability of approximately $8.2 million, which did not materialise. The Company was scheduled to make three PAYG instalments throughout the 2009 year. Based on this information, KBC paid a franked distribution in September 2008 of $13.1 million ($5.6 million reduction to the franking account). The franking account deficit was rectified in the year ended June 2010. The franking account balance is Nil.

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) franking credits that will arise from the payment of the current tax liabilities;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the year end;

(c) franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year end; and

(d) franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

23. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2010 was based on the loss attributable to ordinary shareholders of $49.9 million (2009: $129.1 million) and a weighted average number of ordinary shares outstanding of 172.1 million (2009: 172.1 million) calculated as follows:

	2010 $'000	2009 $'000
Loss attributable to ordinary shareholders		
Net loss attributable to ordinary shareholders	(49,933)	(129,138)

	No. $'000	No. $'000
Weighted average number of ordinary shares		
In thousands of shares		
Weighted average number of ordinary shares for the year to 30 June	172,071	172,071

23. EARNINGS PER SHARE *(continued)*

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2010 was based on loss attributable to ordinary shareholders of $49.9 million (2009: $129.1 million) and a weighted average number of ordinary shares outstanding after adjusting for the effects of all dilutive potential ordinary shares of 172.1 million (2009: 172.1 million) calculated as follows:

	2010 $'000	2009 $'000
Loss attributable to ordinary shareholders (diluted)		
Net loss attributable to ordinary shareholders (diluted)	(49,933)	(129,138)

	No. $'000	No. $'000
Weighted average number of ordinary shares (basic)	172,071	172,071
Effect of share options on issue		
Weighted average number of ordinary shares (diluted) at 30 June	172,071	172,071

At 30 June 2010, 8,766,666 performance rights (2009: 5,975,000 options) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of performance rights was based on quoted market prices for the period during which the performance rights were outstanding.

24. FINANCIAL RISK MANAGEMENT

The Group seeks to minimise the effects of financial risks arising in the normal course of the Group's business. The continued slow recovery in the markets the Group invests in continues to impact negatively on the value and liquidity of the Group's investments and heightened the Group's exposure to financial risks including credit risk, liquidity risk, foreign currency risk, interest rate risk and capital management.

Financial risk management is carried out by Management under policies approved by the Board. During the 12 months to 30 June 2010 Management continued to monitor the Group's policies and sought Board approval for any necessary changes to actively manage the financial health of the Group and to facilitate the Board's decision not to make new investments and to achieve an orderly realisation of investments.

The policies are available on the Company's website at www.keybridge.com.au and discussed in further detail under Corporate Governance on pages 9 to 24 of this Annual Report.

The Board is responsible for overseeing the implementation of, and ensuring there are adequate policies in relation to, the Group's risk management, compliance and control systems. These systems require Management to be responsible for identifying and managing the Group's risks.

The Board has established an Audit, Finance and Risk Committee (AFRC). The AFRC's responsibilities include assisting the Board to achieve the Board's oversight requirements in relation to financial risk management, internal control and transactional risk management. The AFRC meets quarterly and reports to the Board on its activities.

24. FINANCIAL RISK MANAGEMENT *(continued)*

Impairment Losses

The continued instability of the markets that the Group operates in, being characterised by ongoing restrictions in the availability of senior bank debt and low levels of market liquidity, has inhibited the ability to sell assets at acceptable prices in the short term and placed greater financial pressure on lessee and borrower counterparties. In this environment, the Group has focused on an orderly realisation of investments over the medium term as markets stabilise and, in the case of cyclical industries such as aircraft and ships, when markets improve from cyclical lows. These factors underpin the Group's assessment of further impairment losses of $32.4 million for the 2010 financial year.

During the year ended June 2010 the Group assessed the recoverability of the impairment provisions that had been recognised in June 2009 and where it was deemed that there was no possibility of a future repayment of the investment, then the investment was written-off.

The movement in the allowance for impairment during the year was as follows:

	Loans and Receivables		Available for Sale		Held to Maturity		Total Loss Recognised	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Balance at 1 July	133,380	26,521	–	17,755	–	–	133,380	44,276
Impairment loss recognised	32,379	150,999	–	–	–	865	32,379	151,864
Impairment write-back	(6,946)	(314)	–	–	–	–	(6,946)	(314)
Investments written off	(137,144)	(43,826)	–	(17,755)	–	(865)	(137,144)	(62,446)
Balance at 30 June	21,669	133,380	–	–	–	–	21,669	133,380

The allocation of impairments by Business segment is provided in Note 5 – Operating Segment.

In Property, the impairment recognised has been recorded as specific impairments against two of the four remaining investments. In relation to one investment, the property is located in the United States. After a positive start to sales of units in this investment, sales have now slowed down and as a result it may be necessary to reduce the listing price to sell the balance of the units. In the second investment, the property had been expected to be sold for the carrying value but it has now been sold at a reduced price and therefore a provision was recognised for the shortfall.

In Aviation, the impairment has been recorded as specific impairments against one of the four investments. All three investments reflect diminution of aircraft values on the basis of independent current and base value assessments.

In Shipping, the impairment has been recorded as specific impairments against all three investments. In one investment, the Group has an equity interest in a vessel where the funding associated with that vessel breached its minimum value maintenance requirement during the year. As a result, the funding was restructured, resulting in the redirection of all cash to pay down senior debt which in turn impacts the return on investment. Similarly, in another of the Group's investments, despite compliance with minimum value maintenance covenant, cash has been withheld in the transaction pending potential non-compliance with future minimum value maintenance requirements. In the remaining investment the Group has an equity investment in two ships under term charter to October 2011. The specific impairment reflects the loss in value due to the expectation of lower charter rates post October 2011.

In Infrastructure, the impairment has been recorded as specific impairment against the sole remaining investment. The impairment relates to a reduction in value of the solar investment due to production delays and possible reductions in the tariff received from the sale of energy.

24. FINANCIAL RISK MANAGEMENT *(continued)*

In Lending, two of the five investments have been impaired. One is a senior loan secured against a retailing business in China supported by personal guarantees of the principals. Legal action has been taken to recover this loan. The other impaired transaction is a preferred equity investment secured and cross-collateralised by controlling interests in five unlisted US companies. The specific impairment reflects the lower value of the underlying businesses, exacerbated by delays in the sale of the underlying businesses.

Exposure to credit risk

The Group is exposed to credit risk in the event that a counterparty fails to meet its contractual obligations in relation to the Group's investments, derivative financial instruments or deposits with banks and other financial institutions.

The Group manages ongoing credit risk by monitoring closely the performance of investments, the cyclical impact of the underlying asset class, the financial health of counterparties (including lessee and charter parties, banks and other financial institutions) and compliance with senior debt terms and conditions where the Group is a mezzanine or equity investor.

In relation to the Group's Transactional Risk Management Policy (TRMP), having regard to the current business plan of realising assets, paying down corporate debt and not entering into new investments, the majority of this policy is not presently deemed relevant.

Accordingly, the Board has resolved to suspend the TRMP on the basis it be reinstated in the event the Group subsequently determines to recommence transaction origination and investment.

In place of the TRMP, the following transactional guidelines will apply:

- All investments will be continuously monitored and reviewed by KBC Management with a formal report provided to the Board on a regular (monthly) basis.
- Primary Approval Authority for transactions lies with the Board. Apart from the following only the Board can approve a new transaction. The exception is that approval of new funds being provided for existing investments is delegated to both the Chairman and Managing Director together provided the amount does not exceed $500,000 each 6 months and funds are required to protect the value of an existing KBC investment. Such approvals are to be reported to the next Board meeting following the date of approval.

The carrying amount of the Group's financial assets represents its maximum credit exposure. The significant reduction in exposure to credit risk in the 12 months to 30 June 2010 is primarily due to the realisation of assets and further recognition of impairment provisions. The Group's maximum exposure to credit risk at the reporting date was:

		Carrying Amount	
	Note	2010 $'000	2009 $'000
Cash and cash equivalents	9	6,136	9,615
Loans and receivables	12	224,721	314,521
Available-for-sale investments	14	990	132
Embedded derivatives on investments	15	–	8,927
Trade and other receivables		516	327
Add back deferred income		140	491
		232,503	334,013

The Company's maximum exposure to credit risk at the reporting date was $224,647 (2009: $255,738) for loans and receivables. Embedded derivatives were Nil (2009: $9,622) Cash and cash equivalents were $6,316 (2009: $9,615). These numbers are in thousands of dollars.

24. FINANCIAL RISK MANAGEMENT *(continued)*

The Group's maximum exposure to credit risk at the reporting date by segment was:

		Carrying Amount	
	Note	2010 $'000	2009 $'000
Cash (Australian Banks)	9	6,136	9,615
Aviation		136,004	148,712
Lending		37,961	46,514
Shipping		27,362	47,171
Property		14,489	36,651
Infrastructure		10,551	45,135
Other – trade and other receivables		–	215
		233,503	334,013

The Company's maximum exposure to credit risk at the reporting date by industry segment was Cash (Australian Banks): $6,136 (2009: $9,615), Aviation: $135,014 (2009: $149,430), Lending: $20,544 (2009:$30,029), Shipping: $18,105 (2009: $28,746), Property: Nil (2009: $5,721), Infrastructure: $10,584 (2009: $57,720), Other: Nil (2009: Nil) and Inter-company loans: $40,437 (2008: $66,136). These numbers are in thousands of dollars.

In Aviation, the Company has four investments, involving mezzanine loans secured by aircraft in the narrow body and wide body segments of the aviation market. One investment accounts for approximately half of the total aviation exposure and relates to a portfolio of 49 aircraft leased to in excess of 20 operators. Aircraft prices have been affected adversely by the global downturn and there is considerable uncertainty as to whether orderly sales of aircraft can be achieved in prevailing market conditions. Aircraft values have tended to normalise after significant downturns and, as a result, any realisation of the Group's aviation investments is forecast to occur over the next 2 to 3 years.

In Lending, the Company has five investments across a range of industries and comprise senior and subordinated loan exposures. Three of these investments are making monthly payments of interest and/or principal. The remaining two investments are anticipated to be realised over the medium to long term.

During the year ended 30 June 2010 the Group renegotiated the terms of two investments with total value of $19.4 million. Both of the loans are not impaired and continue to repay as required.

In Shipping, the Group has three separate shipping investments, supported by six vessels in the wet and dry bulk cargo sectors. Again, the global downturn has impacted negatively on secondary market prices for vessels. It is anticipated that values and sales activity in shipping markets will recover over the medium term as world trade volumes and liquidity in credit markets improve.

In Property, there are five investments. The majority involve mezzanine loans supported by second mortgages mainly over residential apartment projects being either completed stock or development sites. There is one industrial development project. One investment is in the United States, in Chicago, and the remainder are located on the eastern seaboard of Australia.

The value of investments in this asset class has been significantly impaired, reflecting the slow-down in sales activity and the consequent reduction in property prices across the relevant markets. Work is progressing in each of the transactions to either continue the process of an orderly realisation of the relevant project or restructure the underlying loans to improve the longer term value. At June 30 2010 one investment to the value of $1.5 million has reached its contracted maturity. Keybridge has agreed in-principle to extend the facility for a further period of time. The investment is currently not impaired.

In Infrastructure, the Company has one investment. The investment is an equity position in a solar facility in Spain. In this transaction the Group ranks first as there is no senior debt.

24. FINANCIAL RISK MANAGEMENT *(continued)*

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. At 30 June 2010 the Group's committed debt facilities were recorded as current liabilities due to the facility being due for repayment in June 2011.

The Group met all required minimum debt repayments in the period to 30 June 2010.

In the period to 30 June 2010, minimum required debt repayments were $30.5 million; those actually achieved were $64.0 million. There is a final amount of $6.5 million due by March 2011 this is expected to be met by investment sales over the next 8 months.

The committed debt facilities are fully drawn and the total limit will reduce as repayments occur.

The Group manages liquidity risk via:

- compliance with repayment obligations under the committed debt facilities;
- monitoring forecast and actual cashflows, including asset sales, cash investment income and the timing of foreign currency receipts and outflows; and
- seeking to maintain a minimum cash balance.

Cashflow forecasts are reported regularly to the Board and AFRC.

At 30 June 2010 the Group and Company's secured bank loans were recognised as current liabilities and as a result the contractual maturities of financial liabilities (including estimated interest payments) are required to be shown as falling due within 6 months or less as follows:

	Consolidated and The Company					
	Carrying amount $'000	Contractual cash flows $'000	6 mths or less $'000	6–12 mths $'000	1–2 years $'000	2–5 years $'000
30 June 2010						
Financial liabilities						
Secured bank loans	(145,120)	(154,041)	(10,899)	(143,142)	–	–
Bank fee payable	(1,552)	(3,890)	–	(3,890)	–	–
Trade and other payables*	(2,749)	(2,749)	(2,749)	–	–	–
Interest rate swaps:						
Assets	–	–	–	–	–	–
Liabilities	(4,754)	(4,945)	(2,558)	(2,388)	–	–
Total	(154,175)	(165,625)	(16,206)	(149,420)	–	–

* *Includes loan facility interest expense.*

24. FINANCIAL RISK MANAGEMENT *(continued)*

Under the amendment, the contractual maturities of secured bank loans, excluding estimated interest payments are as follows:

All forward foreign exchange contracts were unwound during the 2009 financial year and as such, there are now no outstanding foreign exchange contracts.

	Consolidated and The Company					
	Carrying amount $'000	Contractual cash flows $'000	6 mths or less $'000	6–12 mths $'000	1–2 years $'000	2–5 years $'000
30 June 2009						
Non-derivative financial liabilities						
Secured bank loans	(215,093)	(229,915)	(229,915)	–	–	–
Trade and other payables*	(3,788)	(3,788)	(3,788)	–	–	–
Interest rate swaps:						
Assets	–	–	–	–	–	–
Liabilities	(9,101)	(8,208)	(2,492)	(2,376)	(3,340)	–
Total	(227,982)	(241,911)	(236,195)	(2,376)	(3,340)	–

** Includes loan facility interest expense.*

	The Company					
	Carrying amount $'000	Contractual cash flows $'000	6 mths or less $'000	6–12 mths $'000	1–2 years $'000	2–5 years $'000
Loans from subsidiaries	(40,437)	(40,437)	–	–	–	(40,437)
	The Company					
30 June 2009						
Loans from subsidiaries	(66,136)	(66,136)	–	–	–	(66,136)

Market risk

Market Risk is the risk that changes in market prices, such as interest rates, equities, ship and aircraft prices will affect the Group's expense. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is directly exposed to interest rate and equity risk to the extent of derivate liabilities $4.75 million (2009: $9.1 million) and available for sale investments of $0.9 million (2009: $0.1 million).

The Group is indirectly exposed in movements in market prices for real estate, ships and aircraft, as these assets provide security to loan and receivables balances.

Foreign currency risk

Foreign exchange risk arises from assets and liabilities that are denominated in a currency that is not the Group's functional currency of Australian dollars. The Group's exposure to foreign exchange risk is material due to the number of investments denominated in both US dollars and one denominated in Euros.

The Group has corporate borrowings in US Dollars and Australian Dollars. As a result the Group has a natural hedge for 67% of its US Dollar denominated investments.

The balance of investments in each currency that are not matched by US Dollar and Euro borrowings, are exposed to translation back to Australian Dollars. Any loss or gain arising on translation is recorded in the profit or loss statement.

24. FINANCIAL RISK MANAGEMENT *(continued)*

Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

AUD Equivalents	USD	Euro	USD	Euro
	30 June 2010 $'000		30 June 2009 $'000	
Loans and Receivables	183,494	10,551	218,525	40,412
Total asset exposure	183,494	10,551	218,525	40,412
Foreign exchange contracts	–	–	–	–
Foreign exchange interest rate swap	(4,137)	–	(7,350)	–
Foreign exchange borrowings	(118,008)	–	(155,672)	(20,854)
Net exposure	61,349	10,551	55,503	19,558

The Net exposure relates to investments in foreign currency that is not naturally hedged with foreign currency borrowings.

The Company's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

AUD Equivalents	USD	Euro	USD	Euro
	30 June 2010 $'000		30 June 2009 $'000	
Loans and Receivables	161,001	10,551	173,399	40,412
Total asset exposure	161,001	10,551	173,399	40,412
Foreign exchange contracts	–	–	–	–
Foreign exchange interest rate swap	(4,137)	–	(7,350)	–
Foreign exchange borrowings	(118,008)	–	(155,672)	(20,854)
Net exposure	38,856	10,551	10,377	19,558

The net exposure relates to investments in foreign currency that is not naturally hedged with foreign currency borrowings.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
AUD:USD	0.8824	0.7480	0.8558	0.8128
AUD:Euro	0.6362	0.5423	0.6995	0.5754

Sensitivity analysis

The Group is exposed to the translation impact back to Australian dollars in relation to the US Dollar denominated investments and Euro denominated investments that are not naturally hedged by US Dollar and Euro corporate borrowings. In the case of US Dollar denominated investments the Group is exposed to 33% of the total US Dollar investments and in the case of Euro denominated investments the Group is exposed to 100% of the total Euro denominated investments. As a result, a change in an exchange rate will have an equal and offsetting impact on the change in the book value of the underlying investment and the profit or loss of the Group.

24. FINANCIAL RISK MANAGEMENT *(continued)*

As shown in the table below, if the Australian Dollar were to decrease by 10%, against both the US Dollar and the Euro, the Group would recognise a non-cash profit of $8.4 million (Company $5.9 million).

	Consolidated profit or loss		Company profit or loss	
	10% increase	10% decrease	10% increase	10% decrease
30 June 2010				
USD	(5,953)	7,276	(3,908)	4,777
Euro	(959)	1,172	(959)	1,172
	(6,912)	8,448	(4,867)	5,949
30 June 2009				
USD	(5,714)	6,984	(1,611)	1,970
Euro	(2,461)	3,008	(2,461)	3,008
	(8,175)	9,991	(4,072)	4,977

The Group's US Dollar interest rate swap is marked-to-market at the end of each reporting period and changes in mark-to-market, reported in an Australian Dollar equivalent, is included in equity. Whilst the Australian Dollar equivalent will change depending on the Australian/US Dollar exchange at a point in time, that movement in exchange rate is also related to US forward interest rates and will change the mark-to-market.

At 30 June 2010 the mark-to-market of the US Dollar interest rate swap was a loss of $4.75 million in equity. If the Australian Dollar depreciated by 10% and all other factors were held constant, including the relationship with US forward interest rates, the impact on equity would be a loss of $0.46 million.

Interest rate risk

The Group and Company is exposed to interest rate risk where committed debt facilities, including non-recourse debt financing and cash, are at a variable rate of interest. The majority of the Company and Group's loans and receivables are at fixed rates.

In relation to the Group and Company corporate borrowings, interest rate swaps have been entered into as cash flow hedges. At 30 June 2010, the Group had two interest rate swaps, one in Australian Dollars with a face value of $25 million and maturity of 4 March 2011 and one in US Dollars with a face value of $69.83 million and a maturity of 31 May 2011. The average remaining term of the interest rate swaps is 10 months.

The Australian Dollar interest rate swap has a base rate of 7.79% per annum and provides a hedge for 92% of the interest cost on the Australian Dollar debt. The US Dollar interest rate swap has a base rate of 5.68% per annum and provides a hedge for 69% of the US Dollar debt. For Australian and US Dollars the base rate under the interest rate swaps is above current bank bill rate and LIBOR respectively.

The Group and Company policy is to ensure that, where practicable, all material interest rates in relation to non-recourse financing within an investment are fixed for the term of the non-recourse financing.

24. FINANCIAL RISK MANAGEMENT *(continued)*

Interest rate profile

At reporting dates the Group and Company's assets and liabilities subject to variable interest rates were as follows:

	Consolidated		The Company	
	Carrying amount		Carrying amount	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Variable rate instruments				
Cash on hand	6,136	9,615	6,136	9,615
Financial assets	15,000	15,000	15,000	15,000
Financial liabilities – corporate borrowings	(145,120)	(215,093)	(145,120)	(215,093)
Interest rate swaps (pay fixed receive floating)	106,601	103,499	106,601	103,499
Total variable rate instruments	(17,383)	(86,979)	(17,383)	(86,979)

The Group and Company is entitled to receive a fixed rate of interest in relation to all of the Group and Company's financial assets, other than the one financial asset, which is a loan in the Lending portfolio with a carrying value of $15 million. Interest income at fixed rates is received as cash or, where there is a reasonable probability of receipt, as accrued income and recognised in the profit and loss statements.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would have a nil impact on profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates throughout the reporting period would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Profit or loss		Equity	
	100bp increase $'000	100bp decrease $'000	100bp increase $'000	100bp decrease $'000
30 June 2010				
Variable rate instruments	143	(143)	–	–
Interest rate swap	–	–	(391)	405
Debt facility	(385)	385	–	–
Cash flow sensitivity (net)	(242)	242	(391)	405
30 June 2009				
Variable rate instruments	76	(76)	–	–
Interest rate swap	–	–	(409)	411
Debt facility	(1,383)	710	–	–
Cash flow sensitivity (net)	(1,307)	634	(409)	411

24. FINANCIAL RISK MANAGEMENT *(continued)*

Fair values

Fair values versus carrying amounts

The carrying values of loans and receivables are considered to represent fair value where an investment has been impaired. For investments that have not been impaired, the fair value is determined using an estimate of interest rates that may apply if these assets were refinanced as at 30 June 2010.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	30 June 2010		30 June 2009	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
	Consolidated			
Available-for-sale investments	990	990	132	132
Loans and receivables	224,721	199,087	314,521	270,278
Cash and cash equivalents	6,136	6,136	9,615	9,615
Trade and other receivables	597	597	327	327
Derivative assets	–	–	8,927	8,927
Interest swaps used for hedging:				
Liabilities	(4,754)	(4,754)	(9,101)	(9,101)
Secured bank loans	(145,120)	(145,120)	(215,093)	(215,093)
Trade and other payables	(4,302)	(4,302)	(3,788)	(3,788)
	78,268	52,634	105,540	61,297
	The Company			
Available-for-sale investments	990	990	132	132
Loans and receivables	224,648	199,087	314,058	276,122
Cash and cash equivalents	6,136	6,136	9,615	9,615
Trade and other receivables	597	597	327	327
Derivative assets	–	–	9,622	9,622
Interest swaps used for hedging:				
Liabilities	(4,754)	(4,754)	(9,101)	(9,101)
Secured bank loans	(145,120)	(145,120)	(215,093)	(215,093)
Trade and other payables	(4,302)	(4,302)	(3,788)	(3,788)
	78,195	52,634	105,772	67,836

Interest rates used for determining fair value

For the purposes of this sensitivity, the interest rates used to discount estimated cash flows are based on the yields required given prevailing market conditions, including historically constrained liquidity and low levels of available senior debt refinancing. The rates were in the following ranges, with the specific discount rate selected based on the characteristics of the underlying investment including asset class, term and risk profile.

24. FINANCIAL RISK MANAGEMENT *(continued)*

	2010	2009
Loans and receivables	20%–30%	18%–30%
Infrastructure	23%	23%

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Consolidated and The Company			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2010				
Derivative assets	–	–	–	–
Available for sale	990	–	–	990
Derivative financial liability	–	(4,754)	–	(4,754)
	990	(4,754)	–	(3,764)
30 June 2009				
Derivative assets	–	8,927	–	8,927
Available for sale	990	–	–	990
Derivative financial liability	–	(9,101)	–	(9,101)
	990	(174)	–	816

In order to determine the fair value of such derivatives, management used a valuation technique in which all significant inputs were based on observable market data or broker quotes for underlying assets.

Capital Management

The Group's total capital at 30 June 2010 was $82 million comprising contributed equity (net of retained losses) and corporate borrowings of $145 million.

These funds are fully drawn and neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, other than the debt.

During the financial year, the Board continued to not make new investments and to manage and realise existing investments over time in order to repay corporate borrowings and ultimately to return value to shareholders. The Group is operating on a minimum liquidity buffer and is not expected to declare dividends in the medium term in order to apply all surplus funds to repayment of corporate borrowings. Thereafter, the Group would be in a position to return capital to shareholders or, subject to prevailing market conditions and shareholder support, to continue with an appropriate growth strategy.

25. RELATED PARTY DISCLOSURE

Key Management Personnel compensation

Information regarding individual Directors and Senior executives' compensation and shares held in the Company as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration Report on pages 34 to 43 of this Annual Report.

Other than as disclosed in Note 25, no Director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

Senior executives (including for the Managing Director)

	Short-term employee benefits			Post-employment benefits		
(in AUD)	Cash Salary $	Retention payments $	Non-monetary $	Company contributions to superannuation $	Share-based payments $	Total $
Totals – 2010	1,046,073	237,500	–	31,729	150,596	1,465,898
Totals – 2009	1,262,213	–	3,400	39,387	150,596	1,355,391

Chairman and Non-Executive Directors

	Short-term employee benefits			Post-employment benefits		
(in AUD)	Cash Fees $	Incentive and bonus payments $	Non-monetary $	Company contributions to superannuation $	Share-based payments $	Total $
Totals – 2010	221,575	–	–	19,942	5,925	247,442
Totals – 2009	262,250	–	–	21,150	24,529	307,929

Directors and key management personnel

The Company has transferred the detailed remuneration disclosures (including key management personnel disclosures) to the Directors' Report. The information can be found in the Remuneration Report on pages 34 to 43.

The names of persons who were key management personnel of the Group and the Company at any time during the financial year are as follows:

Non-Executive Directors

Irene Lee (Chairman)

Michael Perry (Non-Executive Director)

Cass O'Connor (Non-Executive Director) (appointed 16 September 2009)

Ian Ingram (Non-Executive Director) (resigned 30 November 2008)

Philip Lewis (Non-Executive Director) (resigned 25 May 2009)

25. RELATED PARTY DISCLOSURE *(continued)*

Executive Directors

Mark Phillips (Managing Director)

Other key management

Adrian Martin (Company Secretary) (appointed 1 April 2010)

Ian Pike (Chief Investment Officer) (resigned 11 December 2009)

Karen Penrose (Chief Financial Officer and Company Secretary) (resigned 31 March 2010)

(a) Details of remuneration

Details of the remuneration of key management personnel are set out in the Remuneration Report on pages 34 to 43.

(b) Equity instrument disclosures relating to key management personnel movements in shareholdings including equity instruments granted as compensation via the Employee Equity Plan (New Plan) and the Keybridge Capital Limited Director and Employee Share Plan (Old Plan)

The numbers of shares in the Company held during the financial year by key management personnel of the Group, including their personally-related entities is set out below. This includes shares provided as remuneration from the Keybridge Capital Limited Director and Employee Share Plan for the year ended June 2009. There were no shares provided in June 2010.

In the 2010 financial year, all shares issued under the Director and Employee Share Plan, were surrendered to the Trustee.

(c) Other transactions with key management personnel

No key management personnel have entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving key management personnel interests existing at year end.

Employee share scheme

Director and Employee Share Scheme (Old Plan)

In October 2006, the Company initiated a Director and Employee Share Scheme, as an equity-based retention incentive, when the Company was establishing its new board and management team. The shares issued under that Scheme were on terms approved by shareholders at the Annual General Meeting on 26 October 2006. A total of 5,975,000 shares were issued under that Scheme. All issued shares have now been surrendered.

The key terms upon which the shares under the Director and Employee Share Scheme had been issued include:

- The majority of shares have an issue price of $1.25 per share (except for 525,000 shares granted in 2007 which had an issue price of $2.27 per share);
- Limited recourse, interest free loans were provided by the Company to fund the acquisition of the shares;
- Between 75% and 100% of the cash value of dividends paid on the shares during the vesting period were to be applied towards part repayment of the loan, with up to 25% of the cash value of dividends being remitted to the participants to assist fund their personal tax liability on the dividends;
- Other than dividends, there was no payment of cash by the Company to participants;
- The limited recourse loan was to be repaid within five years from the date of issue (or the shares surrendered in full satisfaction of the loan);
- Shares were to vest progressively over periods up to three years from date of issue, subject to participants remaining employed with the Company; and
- Once vested, shares were subject to a non-selling period of 12 months and may only be dealt with where the loan had been repaid.

25. RELATED PARTY DISCLOSURE *(continued)*

Employee Equity Plan (New Plan)

As previously discussed, in order to retain and motivate the Company's management team, the Company introduced new remuneration arrangements in 2010, which included reduced cash retention payments and introduced a new Employee Equity Plan. These new remuneration arrangements have been set having regard to market rates and are in accordance with an independent review undertaken on behalf of the Board. Under this Employee Equity Plan, participants are granted performance rights for the financial years ending 30 June 2010 (Year 1) and 30 June 2011 (Year 2) entitling them to ordinary shares in the Company, subject to the satisfaction of the performance conditions.

If all the performance conditions are met in the respective year, 100% of the performance rights granted for that year will vest. In the event that an employee fails to satisfy all the performance conditions, the percentage of performance rights which vest will be determined by the Board it its absolute discretion by reference to the employee's level of performance against the performance conditions over the relevant performance period. If, for any reason it is not possible to ascertain whether a performance condition or any aspect thereof has been satisfied, the Board shall determine whether the performance condition is deemed to have been satisfied in its absolute discretion.

Across the two senior executives, noted in this report, the maximum number of shares that may be issued in each year is as follows:

- 2010: 2,375,000
- 2011: 2,083,333

Upon vesting of the performance rights, the employee will be allocated one fully paid ordinary share in the Company (share) for each performance right vested.

An amount equivalent to any dividends that would have been received by the participants had they held the shares from the date of grant of the performance rights until the date that the shares were actually allocated to them upon vesting of the performance rights (less any tax payable), will be paid to participants as soon as practicable following the allocation of the shares.

Shares allocated on vesting of the performance rights in each of Year 1 and Year 2 are subject to the following restriction:

- an employee may not sell or otherwise deal with the shares for a period of one year commencing from 30 June of the year in which the performance rights vest, at which point an employee will be able to deal with 50% of the shares; and
- an employee may not sell or otherwise deal with the remaining 50% of the shares for a further one year period.

That is, in respect of Year 1, 50% of the shares will be released from the restriction on 30 June 2011, and the remaining 50% on 30 June 2012. In respect of Year 2, 50% of the shares will be released from the restriction on 30 June 2012, and the remaining 50% on 30 June 2013.

After the Initial Holding Period has concluded, an employee will continue to be unable to sell or otherwise deal with the shares until the earlier of the following dates:

- the date the Board notifies the employee that it has approved a request from an employee that the shares be released;
- the date on which an employee ceases employment; and
- 7 years from the Grant Date.

If a participant ceases employment due to resignation or termination by the Company for misconduct or breach of duty, any unvested performance rights lapse. In addition, in the case of termination by the Company for misconduct or breach of duty, any shares which have been allocated on vesting of the performance rights that remain subject to the sales restrictions (discussed above), will be deemed by the Board to have been forfeited.

25. RELATED PARTY DISCLOSURE *(continued)*

If a participant ceases to be an employee of the Company for any reason other than resignation or termination for misconduct or breach of duty and provided that cessation occurs at least 3 months into the relevant performance period, any unvested performance rights will vest on a pro-rata basis to reflect the proportion of the applicable performance period actually worked, subject to the satisfaction of the performance conditions. In addition, any shares allocated on vesting of the performance rights that remain subject to the sales restrictions (discussed above), will be released.

As at 30 June 2010, 5,975,000 Employee Shares have been surrendered. During the financial year 30 June 2010, 8,766,666 Performance Rights were granted to the Managing Director and Employee's under the Employee Equity Plan.

The amortisation expense recognised in the Financial Statements for the period ended 30 June 2010 was $308,208 and the amount recognised in the share-based payment reserve was $308,208. This is offset by a credit of ($43,708) which related to a reversed expense under the previous share plan.

	Number of Employee Shares granted during 2007	Grant date	Fair value at grant date ($)	Exercise price ($)	Expiry date	Number of shares vested during 2010	Number of Employee Shares surrendered during 2010	Number of Employee Shares vested as at 30 June 2010#
Directors								
Irene Lee	1,000,000	25 August 2006	82,223	1.25	29 April 2010	333,334	(1,000,000)	–
Mark Phillips	3,000,000	18 August 2006	185,260	1.25	29 April 2010	–	(3,000,000)	–
Ian Ingram+	200,000	25 August 2006	16,445	1.25	29 April 2010	–	–	–
Philip Lewis++	200,000	27 September 2006	38,880	1.25	29 April 2010	–	–	–
Michael Perry	200,000	27 September 2006	38,880	1.25	29 April 2010	66,668	(200,000)	–
	4,600,000	–	361,688	–	–	400,002	(4,200,000)	–

+ Resigned 30 November 2008.

++ Resigned 25 May 2009.

 # In the 2010 financial year, all outstanding shares held by the Directors, under the Director and Employee Share Scheme, were surrendered.

There were no new issue of shares under the Director and Employee Share Scheme during 2010.

25. RELATED PARTY DISCLOSURE *(continued)*

	Number of Employee Shares granted during 2007	Grant date	Fair value at grant date ($)	Exercise price ($)	Expiry date	Number of shares vested during 2010	Number of Employee Shares surrendered during 2010	Number of Employee Shares vested as at 30 June 2010#
Management Personnel								
David Stefanoff	150,000	5 October 2006	30,745	1.25	29 April 2010	50,000	(150,000)	–
Ian Pike+	400,000	5 October 2006	83,669	1.25	29 April 2010	133,333	(400,000)	–
Matthew Davis	225,000	17 June 2007	80,511	2.27	29 April 2010	75,000	(225,000)	–
Karen Penrose ++	150,000	5 October 2006	30,745	1.25	29 April 2010	50,000	(150,000)	–
	925,000	–	226,649	–	–	308,333	(925,000)	–

+ Resigned 11 December 2009.

++ Resigned 31 March 2010.

 # In the 2010 financial year, all outstanding shares held by the management, under the Director and Employee Share Scheme, were surrendered.

Options and rights over equity instruments

Performance Rights

Details of the performance rights granted to senior executives under the Employee Equity Plan are set out in the tables below.

	Number of performance rights granted(a)	Future years payable(b)	Fair value of performance rights(c)	Maximum value of grant(d)
Senior Executive				
Current				
Mark Phillips, Managing Director	4,033,333	–	$0.085	$342,833
Adrian Martin, Company Secretary+	425,000	–	$0.12	$51,000
Total	4,458,333	–	–	$393,833

+ Appointed 1 April 2010.

(a) The grants made to senior executives constituted their full LTI entitlement for FY2009/10 and were made on 29 March 2010 on the terms summarised above. In respect of the Managing Director's performance rights, shareholder approval will be sought on 29 September 2010.

(b) Performance rights vest subject to performance over the period from 1 July 2009 through to 31 August 2010 in respect of grants made in Year 1 and 1 July 2010 through to 31 August 2011 in respect of the grants made in Year 2. Performance rights lapse where the performance conditions are not satisfied on testing. Refer to the next table for details as to vesting and forfeiture of performance rights granted to participants in respect of Year 1.

(c) The fair value was calculated as at the grant date.

(d) The maximum value of the grant has been estimated based on the value at grant date. The minimum total value of the grant, if the applicable performance conditions are not met, is Nil.

25. RELATED PARTY DISCLOSURE *(continued)*

Movement in Performance Rights in the 2010 Financial Year

	Date of grant	Number of rights granted	Vesting date	Number of rights vested[1]	Value ($) of rights vested[2]
Current					
Mark Phillips, Managing Director	29 September 2010	4,033,333	29 September 2010	–	–
Adrian Martin, Company Secretary+	26 March 2010	425,000	31 August 2010	–	–

+ Appointed 1 April 2010.

1 On the vesting of each performance right, the holder received one fully paid ordinary share in the Company. For the performance rights granted to Company Secretary, in respect of Year 1, none of the performance rights have vested. The Managing Director performance rights will seek shareholders approval on 29 September 2010.

2 The amount is based on the Company's closing share price on the grant date.

Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in the Group and Company held directly by each key management person is as follows:

	Held at 1 July 2009	Granted as Retention based Remuneration	Exercised	Vested during the year	Shares surrendered	Vested and exercisable at 30 June 2010
Directors						
Irene Lee	1,000,000	–	–	333,334	(1,000,000)	–
Mark Phillips	3,000,000	–	–	1,000,000	(3,000,000)	–
Michael Perry	200,000	–	–	66,668	(200,000)	–
Other key management personnel						
Ian Pike+	400,000	–	–	133,333	(400,000)	–
Karen Penrose++	150,000	–	–	50,000	(150,000)	–

+ Resigned 11 December 2009.

++ Resigned 31 March 2010.

25. RELATED PARTY DISCLOSURE *(continued)*

	Held at 1 July 2008	Granted as Retention based Remuneration	Exercised	Vested during the year	Shares surrendered	Vested and exercisable at 30 June 2009
Directors						
Irene Lee	1,000,000	–	–	333,333	–	666,666
Mark Phillips	3,000,000	–	–	1,000,000	–	3,000,000
Ian Ingram+	200,000	–	–	66,666	(200,000)	–
Philip Lewis++	200,000	–	–	66,666	(200,000)	–
Michael Perry	200,000	–	–	66,666	–	133,332
Other key management personnel						
Ian Pike+++	400,000	–	–	133,333	–	266,666
Karen Penrose++++	150,000	–	–	50,000	–	100,000

+ Resigned 30 November 2008.

++ Resigned 25 May 2009.

+++ Resigned 11 December 2009.

++++Resigned 31 March 2010.

Movement in shares

	Held at 1 July 2009	Purchases	Received on exercise of options	Sales	Held at 30 June 2010
Directors					
Irene Lee	1,750,414	–	–	–	1,750,414
Mark Phillips	453,149	–	–	–	453,149
Michael Perry	535,715	–	–	–	535,715
Cass O'Connor	–	100,000	–	–	100,000
Other key management personnel					
Adrian Martin	5,000	–	–	–	5,000
	2,746,078	100,000	–	–	2,846,078

The exercise price of $1.25 per ordinary share for the shares issued to key management personnel was materially above the Company's share price at 30 June 2009. All options were held directly by key management personnel.

The numbers of shares in the Company held during the financial year by key management personnel of the Group, including their personally-related entities is set out below. This excludes shares provided as retention based remuneration from the Keybridge Capital Limited Director and Employee Share Scheme, unless such shares have been exercised. At 30 June 2009, no shares under the Director and Employee Share Scheme have been exercised.

25. RELATED PARTY DISCLOSURE *(continued)*

	Held at 1 July 2008	Purchases	Received on exercise of options	Sales	Held at 30 June 2009
Directors					
Irene Lee	1,750,414	–	–	–	1,750,414
Mark Phillips	453,149	–	–	–	453,149
Michael Perry	535,715	–	–	–	535,715
Ian Ingram+	–	–	–	–	–
Philip Lewis++	335,095	100,000	–	–	435,095
Other key management personnel					
Ian Pike+++	140,001	–	–	–	140,001
Karen Penrose++++	68,259	–	–	–	68,259
	3,282,633	100,000	–	–	3,382,633

+ Resigned 30 November 2008.

++ Resigned 25 May 2009.

+++ Resigned 11 December 2009.

++++Resigned 31 March 2010.

Other related party transactions

	Transaction value year ended 30 June		Balance year ended 30 June	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
	The Company			
Subsidiary Loans	–	2,094	40,437	66,136
	–	2,094	40,437	66,136

26. GROUP ENTITIES

The ultimate controlling party of the Group is Keybridge Capital Limited incorporated in Australia.

		Ownership interest	
Significant subsidiaries	Country of incorporation	2010 %	2009 %
Bridge Property Investments Pty Limited	Australia	100	100
Pacific Bridge Cyprus Limited	Cyprus	100	100
Bridge Financial Pty Limited	Australia	100	100
MB Finance Pty Limited	Australia	100	100
Keybridge Funds Management Pty Limited	Australia	100	100

27. SUBSEQUENT EVENT

Subsequent to balance date the Group exchanged documents for the sale of the one of its property investments. This is expected to settle in September 2010 and will realise $5.0 million.

There are no other matters which significantly affected or may significantly affect the operations of the Company, the results of the operations, or the state of affairs of the Company in future financial periods, other than that included in this report under the review of operations and results.

28. COMMITMENTS

(i) Maintenance commitment

There is a requirement to reimburse an amount of repairs, which was funded in advance by the senior lender for one of the Company's investment in an aircraft. The balance of the amount required to be repaid is approximately $0.4 million at 30 June 2010 (2009: Nil).

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Less than one year	72	–	72	–
Between two and five years	284	–	284	–
	356	–	356	–

(ii) Loan commitments

There are no undrawn commitments at year end. The balance of the undrawn commitment was approximately $1.35 million at 30 June 2009.

(iii) Lease commitments

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Less than one year*	241	275	241	275
Between one and five years	313	825	313	825
	554	1,100	554	1,100

** Net of sub lease valued at $15,000 at 30 June 2010.*

During the financial year the lease payments recognised as an expense totalled $227,249. The Group leases its premises under a lease which expires in September 2012. The Group also leases office equipment under a lease which expires in September 2011. Leases generally provide the Group entity with a right of renewal at which time all terms are renegotiated.

29. CONTINGENCIES

There are no contingent assets or liabilities as at 30 June 2010.

30. AUDITORS REMUNERATION

	Consolidated		The Company	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Auditors of the Company				
KPMG Australia:				
Audit and review of the financial reports	141	140	141	140
Other regulatory audit services	5	5	5	5
Tax services	28	26	28	26
	174	171	174	171

Directors' Declaration

1 In the opinion of the directors of Keybridge Capital Limited (the Company):

(a) the Financial Statements and Notes set out on pages 27 to 102 and the Remuneration report in the Directors' report, set out on pages 34 to 43, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2010 and of their performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the Financial Statements also complies with International Financial Statement Standards as disclosed in Note 2(a); and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The Directors have been given the declaration required by Section 295A of the *Corporations Act 2001* from the Managing Director and Company Secretary for the financial year ended 30 June 2010.

Signed in accordance with a resolution of directors:

Irene Lee
Chairman

Sydney, 10 August 2010

The shareholder information set out below was applicable as at 3 August 2010.

DISTRIBUTION OF EQUITY SECURITIES

Range	Total holders	Shares	% of issued Shares
1 to 1000	208	115,917	0.07
1001 to 5000	806	2,467,017	1.39
5001 to 10000	570	4,347,504	2.44
10001 to 100000	1,042	34,119,902	19.16
100001 and Over	187	36,995,224	76.94
Total	2,813	178,045,564	100.00

LARGEST SHAREHOLDERS

The names of the 20 largest holders of ordinary shares as at 3 August 2010 are listed below:

Shareholder	Number held	% of issued Shares
Citicorp Nominees Pty Limited	22,668,152	12.73
ANZ Nominees Limited <Cash Income A/C>	22,537,015	12.66
Mr Robert Michael Whyte	6,109,267	3.43
MB Finance Pty Ltd <Mariner Bridge Investments Employee Share Scheme A/C>	5,975,000	3.36
Mr Paul Jacobs	4,287,616	2.41
Whitechurch Developments Pty Ltd	3,951,782	2.22
Whitechurch Developments Pty Ltd <Whitechurch S/F A/C>	3,782,678	2.12
RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/C>	3,465,944	1.95
Australian Executor Trustees Limited <No 1 Account>	2,667,209	1.50
Gersor Pty Ltd <Gersor Superfund A/C>	2,000,000	1.12
Rapcorp Pty Ltd	2,000,000	1.12
Mr Patrick Martin Burroughs	1,600,000	0.90
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	1,564,559	0.88
Mrs Lynette Beryl Wamsteker	1,400,000	0.79
Mr Donald Gordon Mackenzie + Mrs Gwenneth Edna Mackenzie	1,362,000	0.76
Mr Alfred Piper <Piper Family A/C>	1,234,584	0.69
Armada Trading Pty Limited	1,227,194	0.69
Denald Nominees Pty Ltd <Rhayden Super Benefit 1 A/C>	1,200,000	0.67
Cherryoak Investments Pty Ltd <C & N Family A/C>	1,150,000	0.65
Cunact Pty Ltd <Lionel Moore Super Fund A/C>	1,150,000	0.65

SUBSTANTIAL HOLDERS

Shareholder	Number of shares	%
UBS Nominees	19,761,599	11.1%
Australian Style Group Pty Ltd	19,482,240	10.9%

VOLUNTARY ESCROW

There are no shares subject to escrow arrangements, other than those issued under the Director and Employee Share Scheme.

MARKETABLE PARCELS

The number of holders holding less than a marketable parcel of 5,155 shares ($0.097 on 3 August 2010) is 1,037.

VOTING RIGHTS

On a show of hands, at a general meeting of Keybridge Capital, every member present at a meeting in person or by proxy has one vote and upon a poll, each member has one vote for each ordinary share held.

SHAREHOLDER ENQUIRIES

Shareholders with enquiries about their shareholdings should contact Keybridge's share registry, Link Market Services Limited, by telephone on 1800 992 613.

CHANGED YOUR ADDRESS?

If you change your address, please promptly notify our share registry in writing. Please quote your Shareholder Reference Number and your old address as added security.

INVESTOR INFORMATION

Keybridge Capital maintains a website at www.keybridge.com.au where company information is available and a service for any queries is provided. For any further queries, please contact the Company on +61 2 9321 9000.

ONLINE RECEIPT OF THE ANNUAL REPORT AND SHAREHOLDER INFORMATION

Keybridge Capital makes its Annual Report available online. The Company encourages shareholders to receive all other shareholder information including notices of all Annual General Meetings online. Shareholders who prefer to receive a hard copy of the Annual Report, or all other shareholder information by mail should advise the share registry in writing.

STOCK EXCHANGE LISTING

Keybridge Capital Limited ordinary shares are quoted on the Australian Securities Exchange.

(ASX Code: KBC).

UNQUOTED EQUITY SECURITIES

There are 5,975,000 shares issued under the Director and Employee Share Scheme which are unquoted. These are described in the Remuneration Report.

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Corporate Directory

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