Keybridge Capital Limited and Controlled Entities

ABN 16 088 267 190

31 December 2013
Condensed Consolidated
Interim Financial Report

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Contents

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Directors' Report

Your Directors present their report together with the condensed consolidated financial report of Keybridge Capital Limited (the "Company") and its controlled entities (the "Group") for the half-year ended 31 December 2013 and the independent auditor's review report thereon.

DIRECTORS

The names of the directors who held office during, and since the end of, the half year are:

Executive Director:
Nicholas Bolton (Executive Director)

Non-executive Directors:
Peter Wood (Chairman)
Bill Brown
Robert Moran

PRINCIPAL ACTIVITIES

Keybridge Capital Limited is a financial services Group that has invested in, or lent to, transactions backed by real assets, financial assets or cash flow. Its current investment classes include infrastructure, private equity, listed equity, lending, property and shipping.

DIVIDENDS - KEYBRIDGE CAPITAL LIMITED

For the period to 31 December 2013, the Directors determined not to declare any dividends payable to shareholders.

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

REVIEW OF OPERATIONS AND RESULTS

Keybridge Capital continued to successfully realise non-core assets in its portfolio during the half year to 31 December 2013. The Company's cash balance has increased from $12.5 million at 30 June 2013 to $20.1 million by 31 December 2013.

During the period, the Company completed the acquisition of all the shares in PR Finance Group Limited (PRFG) by way of Scheme of Arrangement for consideration of $1.35 million in cash and 2.5 million Keybridge shares. PRFG subsequently sold its Motor Finance Wizard division to a foreign-domiciled investment company for $52 million. The sale generated sufficient funds to fully repay PRFG's senior debt to the CBA and $10.5 million in cash as partial repayment of the mezzanine loan initially made by Keybridge to PRFG in 2007.

PRFG's only other significant asset was Australian Money Exchange Pty Ltd (AMX), a short-term lender of personal loans. Keybridge appointed an Administrator to AMX after ASIC expressed concern that AMX may be breaching certain National Consumer Credit Laws. With Keybridge support, AMX has continued to trade under Administration while offering a limited range of products in accordance with ASIC requirements and is pursuing alternative licencing arrangements, which may allow it to expand its product offering in due course.

Although the Company concluded a number of complicated transactions during the period to realise illiquid assets, and has built a strong cash holding available to pursue new investments, the Company incurred a normalised net loss after tax of $0.4 million, and a reported net loss after tax of $1.3 million for the half year to 31 December 2013.

These losses are largely due to impairments on the Totana Solar farm and the impacts of consolidating the assets and non-recourse liabilities of Oceanic Shipping Company 8 Limited (Oceanic Shipping) which were acquired by Keybridge during the period, and the impairment of the acquisition of shares in PRFG which facilitated a significant asset realisation. The balance of the loss for the half year can be attributed to one-off legal and professional costs of approximately $0.4 million incurred in responding to the takeover bid for Keybridge by its then largest shareholder Oceania Capital Partners.

Directors' Report

Financial Results

For the purposes of this review, results are compared with the prior comparable period of the consolidated entity.

The Group's net loss after tax attributable to ordinary equity holders for the half-year to 31 December 2013 was $1.3 million, compared with a loss of $2.5 million in the prior period. Basic and diluted loss in the last six months was 0.66 cents per share compared with 1.46 cents in the prior period. The Group had a loss from operating activities of $1.3 million, compared with a loss for the six months to 31 December 2012 of $1.7 million.

Since 30 June 2013, the Group has recognised a further $0.4 million of net impairment provisions across its portfolio, of which $1.85 million is represented by the provision against the equity investment in PRFG and $1.5 million against the equity investment in the Spanish solar farm. The impairments were offset with a reversal of impairment of $3.0 million against the P&J loan. Details of the impairments and other matters relevant to the state of affairs of the Group are set out below and in note 14 of the Financial Statements.

Investment and interest income was lower in the six months to 31 December 2013 than in the period to 31 December 2012 as a result of Keybridge no longer recognising interest income on the PRFG investment due to the acquisition of PRFG.

The Group has been earning an average 4.11% per annum on the average cash held on deposit of approximately $16.2 million for the six months to 31 December 2013.

There was an unrealised mark-to-market loss in the value of shares held in PTB Group (PTB) of $0.8 million. This impairment was off-set by an unrealised gain in Aurora Funds Limited (AFV) of $0.1 million.

Of the Group's total investments as at 31 December 2013, approximately 77% were denominated in either US Dollars or Euros, of which 29% are unhedged against the Australian Dollar. The Group's profitability will be subject to variability in the value of the Australian Dollar against the US Dollar and Euro.

The Australian Dollar depreciated by approximately 3.5% against the US Dollar and by 8.7% against the Euro in the six months to December 2013. This led to an unrealised gain in the value of the Group's unhedged foreign currency assets. For the six months to 31 December 2013, the net impact of this exposure was a gain of $0.7 million (2012: loss of $0.9 million).

Operating expenses (excluding shipping operating and shipping financing costs) were higher in the period to 31 December 2013 at $1.7 million compared with $1.1 million in 2012. The increase was due to higher legal and professional costs of approximately $0.6 million associated with the acquisition of PRFG and responding to the off-market takeover bid for Keybridge.

Borrowing costs of $0.1 million for the six months to 31 December 2013 are related to the asset-specific loans held by Oceanic Shipping. Keybridge has no corporate debt in its own right.

The Group continues to not recognise its deferred tax benefits as an asset due to the uncertainty of being able to utilise the benefits over time. Any movement in deferred tax benefits is recognised directly in the profit and loss and not on the balance sheet.

INVESTMENTS AND LOANS

As at 31 December 2013, the Group's net investments and loans totalled $62.4 million, split across the following asset classes:

	$'000m	% of Total
Cash on hand	20,093	32%
Infrastructure	7,006	11%
Private Equity	5,433	9%
Property	5,204	8%
Listed Equity	2,960	5%
Lending	1,446	2%
Shipping*	20,295	33%
	62,437	**100%**

* includes $18.1 million of ships held in Oceanic Shipping, a 97% owned subsidiary. This asset is fully offset by a related liability.

Infrastructure:

In March 2008, Keybridge developed a 1.05MW solar photovoltaic electricity facility in southern Spain. Previously this plant had some production issues that have now been rectified under warranty and it is now functioning in accordance with the original contract.

The original agreement with the Spanish government provided for a fixed feed-in tariff per kWh with partial CPI based increases. The agreed tariff was significantly above market rates. In December 2010 the Spanish government placed a cap on the volumes able to receive the feed-in tariff until 31 December 2013. From 1 January 2014 the cap increases with a further increase to occur on 1 January 2015.

The investment is currently generating approximately EUR680,000 per annum in cash income for Keybridge. However, there are significant uncertainties involving the sustainability of this income as there have been reports that the Spanish government may increase taxes on solar plants and again change the laws regarding feed-in tariffs.

In total, Keybridge recognised impairments of $1.5 million against its solar farm investment in the six months to December 2013. The Group received income as expected during the period to 31 December 2013.

Private Equity:

Keybridge has a limited recourse loan to RPE1 Investor LLC, a Colorado USA limited liability company which holds units in a Private Equity Fund. This loan accrues interest at 14.5% per annum and has a maturity date of 31 December 2017. Keybridge's loan of USD4.8 million is supported by security over equity which RPE1 Investor LLC has estimated at a fair value of USD37.9 million at 30 September 2013.

Keybridge received no repayments from its Private Equity investment during the six months to 31 December 2013 and accrued $0.4 million in income.

Property:

In 2007 and 2008, Keybridge invested $5.95 million in mezzanine loans against a residential and retail property development located in an inner Sydney suburb. The project involves the progressive development of four lots. Three out of the four lots have completed development with the majority of the properties having been sold. Keybridge's loans are currently in default and accumulating interest such that the current face value of the loans outstanding is approximately $9.3 million. As there is a significant risk that the Company will not recover its loans in full, the Company has been carrying the loan on its Balance Sheet at nil as at 30 June 2013.

On 17 February 2014, Keybridge was repaid approximately $3.0 million as partial repayment of its outstanding loan. As it became likely that this payment would occur, a reversal of the impairment was made, which had the impact of increasing the carrying value of the loan to P&J during the six months to 31 December 2013. There may be further recovery from this asset in due course, however the Company continues to value future recoveries at nil.

The other property investment is a loan to a fund which invests in first ranking mortgage loans over commercial properties. Keybridge is currently the sole lender to a portfolio with three loans outstanding, two of which relate to a property in the Sydney suburb of Manly. These two loans are under active management with a receiver appointed to the loans in June 2009. The fund manager has commenced a claim against the valuer who provided the initial valuation for the Manly property funding. Keybridge expects that the claim will be defended and accordingly at this time the likelihood of any additional recovery under the claim is unknown.

Listed Equity:

Keybridge holds an 18.5% investment in ASX-listed PTB Group Limited (PTB), which is a turbo prop aircraft parts and services supply organisation with operations in Queensland and New South Wales. This investment is marked-to-market at each balance date, which, as at 31 December 2013, resulted in a decline in value of $0.8 million from 30 June 2013.

The other listed investment held by Keybridge is a 14.99% (as at 31 December 2013) holding in ASX-listed Aurora Funds Limited (AFV). Keybridge initially purchased 548,000 shares or 5% of the paid up capital in August 2013 at 45 cents per share which were marked-to-market as at 31 December 2013 resulting in a $0.1 million uplift. The remaining 1,097,150 shares were purchased on 31 December 2013 at 65 cents per share. The closing price of AFV as at 31 December was 65 cents per share.

Lending:

Keybridge has two investments in the Lending asset segment.

In August 2013, Keybridge completed its purchase of PRFG for $1.35 million in cash and $0.5 million Keybridge shares. The acquisition of PRFG allowed Keybridge to protect its investment and assume a greater influence in negotiating a sale of the motor vehicle division, which occurred in September 2013. Keybridge was repaid $10.5 million of its $11.7 million written down loan amount.

In October 2013, the PRFG directors appointed an Administrator after Australian Securities and Investment Commission (ASIC) issued a letter to AMX Money (AMX), a wholly-owned subsidiary of PRFG, expressing concerns that AMX may be breaching National Consumer Credit Laws and should immediately cease activity that may contravene these laws.

With the appointment of the Administrator, Keybridge is no longer required to consolidate the financial results of PRFG and therefore Keybridge has removed the assets and liabilities from the Statement of Financial Position for the six-months to 31 December 2013. As previously announced to shareholders, the Keybridge Directors have impaired Keybridge's equity investment of $1.85 million to nil, however the loan is carried at $1.2 million.

AMX has continued to trade under Administration while offering a limited range of products in accordance with ASIC requirements and is pursuing alternative licencing arrangements which will allow it to expand its product offering in due course.

As a result of the relationship with PRFG, in September 2013, Keybridge lent $300,000 to Carbon Polymers Ltd (CBP) for 90 days at 15% interest per month. Security is a first-ranking fixed and floating charge over all company assets, which are valued at more than $3 million. Full repayment is expected by mid March 2014, following an extension granted in December 2013.

Shipping:

Oceanic Shipping

As at 30 June 2013, Keybridge held an effective 48.5% investment in Oceanic Shipping Company 8 Limited (Oceanic Shipping). Oceanic Shipping owned three shipping vessels which were previously chartered to Honglam. On termination of the Honglam charter, Oceanic Shipping commenced operating the vessels and required further working capital from shareholders to continue to operate. The other significant shareholder in Oceanic Shipping declined to participate and offered to sell their 48.5% interest in Oceanic Shipping to Keybridge for USD1,000.

This was an opportunity for Keybridge to increase its share in Oceanic Shipping and be exposed to a greater share of any upside in the future disposal of the three vessels. On 1 July 2013, Keybridge acquired an additional 48.5% of the equity it did not already own in Oceanic Shipping. As a result of the acquisition of the additional shares and the control it now possesses, Keybridge is now required to consolidate the financial results of Oceanic Shipping for the six months to 31 December 2013.

The three vessels were sold in February 2014 and are forecast to realise $18.1 million which is approximately $3.7 million lower than the carrying value of the vessels. This has required Oceanic Shipping to recognise impairments for the six months to 31 December 2013.

Due to the non-recourse nature of the loan Oceanic Shipping will realise a gain of $4.1 million on the extinguishment of the unpaid balance of the debt to the senior lenders.

The disposal of Oceanic Shipping will allow Keybridge to no longer consolidate the subsidiary and therefore any losses recognised in these interim results will be reversed in the full year results.

No repayments were received from its Shipping investment and a nil profit on the equity-accounted investments was recognised in the period to 31 December 2013.

OFF-MARKET TAKEOVER BID FOR KEYBRIDGE

On 28 November 2013, Oceania Capital Partners Limited (OCP) announced an unsolicited off-market takeover bid for all of the shares in Keybridge) for consideration of $0.16 in cash for all Keybridge shares. On 7 February 2014, OCP increased their bid to $0.19 cents per share.

In responding to this bid from OCP, Keybridge has incurred approximately $0.4 million in additional legal costs and professional fees in advising shareholders in the inadequacy of the bid.

On 21 February 2014, OCP's takeover bid expired leaving OCP with a total shareholding in Keybridge of 27.6%. On 20 February 2014, OCP announced that it has entered into Put Option arrangements to sell all its shares to a number of third parties in order to exit its holding in the Company. For further details regarding the bid refer to Keybridge's announcements made in December 2013, January 2014 and February 2014 to the ASX.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

As announced in November 2013, Keybridge instigated a buy-back program to enable the Company to purchase up to 17.457 million shares of the Company's shares on issue. The price paid for shares under the buy-back is in accordance with the ASX Listing Rules and at a discount to internally calculated NTA. This buy-back was an opportunity for Keybridge to repurchase its own shares which have traded at discounts to NTA whilst also providing improved liquidity for shareholders who may wish to exit their investments. Since 14 February 2014, the Company has purchased 15,533,054 shares.

Other than above, no other significant changes have occurred during the half-year period ended 31 December 2013.

OUTLOOK

Having largely completed the difficult program of complex asset realisations and workouts over the last few years, the Company is now in a position to initiate new investments.

The Company recently invested $1.1 million to acquire 16% of Aurora Funds Ltd (ASX: AFV) with a view to assisting AFV to fund its future growth. With approximately $400 million in funds under management, AFV is in a strong position to build a larger business in an industry expected to grow rapidly.

The Company is currently reviewing a number of other investment opportunities and will keep the market informed as they progress.

ROUNDING OF AMOUNTS

The consolidated entity 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.

AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration is set out on page 7 and forms part of the Directors' Report for the half-year ended 31 December 2013.

Dated at Sydney this 25th day of February 2014.

Signed in accordance with a resolution of the Board of Directors.

Peter Wood
Chairman

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 review for the half-year ended 31 December 2013 there have been:

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

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

KPMG

KPMG

Madeleine Mattera
Partner

Sydney

25 February 2014

Keybridge Capital Limited and Controlled Entities

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Condensed consolidated statement of comprehensive income
For the six months ended 31 December 2013

	Note	31 Dec 2013 $'000	31 Dec 2012 $'000
Revenue and income			
Fees		27	97
Interest income	10	1,190	2,934
Net unrealised gain/(loss) on other investments		(700)	611
Net realised gain on disposal of investments		17	-
Other income		18	264
Shipping income		5,800	-
Operating income		6,352	3,906
Expenses			
Net impairment expenses	14	(357)	(3,591)
Unrealised gain/(loss) on revaluation of foreign currency assets		717	(937)
Realised net foreign currency gain/(loss) on foreign currency assets		-	(5)
Administration expenses	11	(535)	(180)
Employment costs		(569)	(397)
Legal and professional fees		(896)	(371)
Other expenses		(121)	(128)
Shipping gain on reversal on loan liability	15	4,113	-
Shipping vessel impairment	16	(3,692)	-
Shipping goodwill impairment	17	(455)	-
Direct shipping costs		(5,826)	-
Results from operating activities		(1,269)	(1,703)
Unrealised foreign exchange gain on foreign currency borrowings		-	864
Finance costs	12	(34)	(1,246)
Net finance (costs)/income		(34)	(382)
Loss before income tax		(1,303)	(2,085)
Income tax (expense)/benefit	21	-	(427)
Loss from continuing operations		(1,303)	(2,512)
Acquired operation			
Bargain purchase gain (net of tax)	9	7,514	-
Discontinued operation			
Loss from discontinued operation (net of tax)	7	(7,514)	-
Loss for period		(1,303)	(2,512)
Loss attributable to:			
Owners of the Company		(1,139)	(2,512)
Non-controlling interests		(164)	**-**
Total comprehensive income for the period		(1,303)	(2,512)
		Cents	**Cents**
Basic loss (cents per share)		**(0.66)**	**(1.46)**
Diluted loss (cents per share)		**(0.66)**	**(1.46)**

The notes on pages 12 to 32 are an integral part of these condensed consolidated interim financial statements.

Keybridge Capital Limited and Controlled Entities

ABN 16 088 267 190

Condensed consolidated statement of financial position as at 31 December 2013

	Note	31 Dec 2013 $'000	30 Jun 2013 $'000
Cash and cash equivalents		20,093	12,551
Trading and other receivables		97	31
Loans and receivables - net	14	4,848	11,874
Other investments		2,960	2,700
Other assets		104	62
Assets held for sale	8	20,295	-
Total current assets		48,397	27,218
Loans and Receivables - net	14	14,243	15,238
Property, plant and equipment		4	29
Total non-current assets		14,247	15,267
Total assets		62,644	42,485
Payables	13	1,148	443
Liabilities held for sale	8	20,270	-
Total current liabilities		21,418	443
Total liabilities		21,418	443
Net assets		41,226	42,042
Equity			
Share capital	19	261,151	260,651
Reserves		-	-
Retained earnings/(losses)		(219,748)	(218,609)
Total equity attributable to equity holders of the Company		41,403	42,042
Non-controlling interests		(177)	-
Total equity		41,226	42,042

The notes on pages 12 to 32 are an integral part of these condensed consolidated interim financial statements
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Keybridge Capital Limited and Controlled Entities

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Condensed consolidated statement of changes in equity
For the six months ended 31 December 2013

	Share capital	Profits reserve	Retained earnings/ (losses)	Total	Non-Controlling Interests	Total Equity
		$'000	$'000			$'000
Balance at 1 July 2012	260,651		(214,817)	45,835	-	45,835
Total comprehensive income for the period						
Loss for the period	-	-	(2,512)	(2,512)	-	(2,512)
Other comprehensive income					-	
Total comprehensive income for the period	-	-	(2,512)	(2,512)	-	(2,512)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share based payments	-	-	-	-	-	-
Unearned share based payments transferred to profit and loss	-	-	-	-	-	-
Reserves transferred to retained earnings	-	-	-	-	-	-
Balance at 31 December 2012	260,651	-	(217,329)	43,322	-	43,322
Balance at 1 July 2013	260,651	-	(218,609)	42,042	-	42,042
Total comprehensive income for the period						
Loss for the period	-	-	(1,139)	(1,139)	(164)	(1,304)
Total comprehensive income for the period	-	-	(1,139)	(1,139)	(164)	(1,304)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares related to business combinations	500	-	-	500	-	500
Changes in ownership interests in subsidiaries						
Acquisition of subsidiary with non-controlling interests	-	-	-	-	(13)	(13)
Total transactions with owners of the Company	500	-	-	500	(13)	487
Transfer to profits reserve	-	-	-	-		
Balance at 31 December 2013	261,151		(219,748)	41,403	(177)	41,226

The notes on pages 12 to 32 are an integral part of these condensed consolidated interim financial statements.

Keybridge Capital Limited and Controlled Entities

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Condensed consolidated statement of cash flows
For the six months ended 31 December 2013

	Note	31 Dec 2013 $'000	31 Dec 2012 $'000
Cash flows from operating activities			
Fees received		27	12
Interest received		567	2,949
Receipts from customers		2,988	-
Shipping charter income		5,800	-
Shipping direct costs		(5,826)	-
Shipping trade receivables		3,777	-
Shipping trade payables		(3,303)	-
Payments to suppliers and employees		(6,586)	(1,137)
Interest payment		(1,099)	(827)
Realised cash from foreign exchange		44	-
Other income		17	249
Net cash from operating activities		(3,593)	1,246
Cash flows from investing activities			
Loans and Receivables, advances and acquisitions of other instruments		(1,986)	265
Proceeds from sale of Motor Vehicle Division		52,500	
Disposal of discontinued operations, net of cash disposed of	7	(986)	-
Acquisition of subsidiary, net of cash acquired	9	831	-
Proceeds from sale/repayments of loan and receivables		11,054	9,540
Net cash from investing activities		61,413	9,805
Cash flows from financing activities			
Repayment of loans and borrowings		(49,985)	(11,948)
Net cash from/(used) in financing activities		(49,985)	(11,948)
Net increase/(decrease) in cash and cash equivalents		7,835	(898)
Cash and cash equivalents at 1 July		12,551	2,522
Cash held within disposal group held for sale	8	(267)	-
Effect of exchange rate fluctuations on cash held		(26)	(27)
Cash and cash equivalents at 31 December		20,093	1,597

The notes on pages 12 to 32 are an integral part of these condensed consolidated interim financial statements.

1. Reporting entity

Keybridge Capital Limited (referred to as "Keybridge" or the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2013 comprises 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 2013 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 condensed consolidated interim financial statements are a general purpose financial report prepared in accordance with AASB 134 Interim Financial Reporting and the *Corporations Act 2001*.

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2013.

The condensed consolidated interim financial statements comply with IAS 34 Interim Financial Reporting.

This consolidated interim financial report was approved by the Board of Directors on 25 February 2014.

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.

(b) Use of estimates and judgements

The preparation of interim 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.

Except as described below, in preparing this condensed consolidated interim financial report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2013.

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 condensed consolidated interim financial statements are described in:

- Note 7 - Discontinued operation
- Note 9 - Acquisition of subsidiary and non-controlling interests
- Note 14 - Impairment provisions
- Note 17 - Intangibles and Goodwill
- Note 21 - Taxation

3. Significant accounting policies

The accounting policies applied by the Group in this Condensed Consolidated Interim Financial Report are the same as those applied by the Group in its Consolidated Financial Report as at and for the year ended 30 June 2013.

3. Significant accounting policies (continued)

Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013:

AASB 10 *Consolidated Financial Statements* (2011) (see (a))
AASB 11 *Joint Arrangements* (see (b))
AASB 13 *Fair Value Measurement* (see (c))

The nature and the effect of the changes are further explained below.

(a) Subsidiaries

As a result of AASB 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, AASB 10 (2011) requires the Group consolidate investees that it controls on the basis of de facto circumstances.

In accordance with the transitional provisions of AASB 10 (2011), the Group reassessed the control conclusion for its investees at 1 July 2013. There have been no impacts to the recognised assets, liabilities and comprehensive income of the Group

(b) Joint arrangements

As a result of AASB 11, the Group has changed its accounting policy for its interests in joint arrangements. Under AASB 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

The Group has re-evaluated its involvement in its only joint arrangement and has reclassified the investment from jointly controlled entity to joint venture. Notwithstanding the reclassification, the investment continues to be accounted for using the equity method; accordingly, there has been no impact on the recognised assets, liabilities and comprehensive income of the Group.

(c) Fair value measurement

AASB 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Group has included additional disclosures in this regard (see note 18).

In accordance with the transitional provisions of AASB 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

(d) Segment information

The amendment to AASB 134 clarifies that the Group needs to disclose the measures of total assets and liabilities for a particular reportable segment only if the amounts are regularly provided to the Group's chief operating decision maker, and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment. As a result of this amendment, the Group has included additional disclosure of segment assets (see note 5).

4. Financial risk management

The Group seeks to minimise the effects of financial risks arising in the normal course of the Group's business. The markets in which the Group has invested on the whole remained stable for the first half of 2014 financial year. Financial risk management is undertaken by management under policies approved by the Board.

The Company's policies are available on the Company's website at www.keybridge.com.au. The Group's policies are discussed in further detail under Corporate Governance on pages 11 to 23 of the 2013 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.

Since the Corporate borrowings were repaid, management has been focused in extracting as much value in the portfolio remaining assets. Management activities in the last six months have included acquiring PRFG, obtaining a further 48.5% of the shares in Oceanic Shipping and repaying Keybridge's loan, preserving its security entitlements in its primary property transaction and more recently responding to an unsolicited takeover of Keybridge.

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 lender or equity investor.

In relation to the Group's Transactional Risk Management Policy (TRMP), having regard that a new business plan has yet to be formalised by the Board, the majority of this policy continues to be suspended.

The Board suspended the TRMP in 2009 on the basis it be reinstated in the event the Board subsequently determines to recommence transaction origination and/or investment activity.

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

- All loans and investments are continuously monitored and reviewed by Keybridge management with a formal report provided to the Board on a monthly basis.
- Primary approval authority for transactions lies with the Board. Only the Board can approve a new transaction. The only exception to this is that the approval of new funds for existing investments is delegated to both of the Chairman and Executive Director, provided the amount does not exceed $500,000 in any six month period and the funds are required to protect the value of an existing Keybridge investment. Such approvals are to be reported to the next Board meeting following the date of approval. Two such delegations were exercised over the six months to 31 December 2013.

4. Financial risk management (continued)

Exposure to credit risk (continued)

The carrying amount of the Group's financial assets represents its maximum credit exposure.

The reduction in exposure to credit risk in the six months to 31 December 2013 is primarily due to the realisation of assets. The Group's maximum exposure to credit risk at the reporting date was:

	31 Dec 2013 $'000	30 Jun 2013 $'000
Cash (Australian Banks)	20,093	12,551
Infrastructure	7,006	8,120
Private Equity	5,433	4,869
Property	5,204	2,444
Lending	1,446	11,679
	39,182	39,664

The Group's most significant counterparty exposure relates to one infrastructure investment (30 June 2013: one lending investment) which accounts for $7,006,000 of carrying amounts for the loans and receivables at 31 December 2013 (30 June 2013: $11,679,000).

Infrastructure:

In March 2008, Keybridge developed a 1.05MW solar photovoltaic electricity facility in southern Spain. Previously this plant had some production issues that have now been rectified under warranty and it is now functioning in accordance with the original contract.

The original agreement with the Spanish government provided for a fixed feed-in tariff per kWh with partial CPI based increases. The agreed tariff was significantly above market rates. In December 2010 the Spanish government placed a cap on the volumes able to receive the feed-in tariff until 31 December 2013. From 1 January 2014 the cap increases with a further increase to occur on 1 January 2015.

The investment is currently generating approximately EUR680,000 per annum in cash income for Keybridge. However, there are significant uncertainties involving the sustainability of this income as there have been reports that the Spanish government may increase taxes on solar plants and again change the laws regarding feed-in tariffs. The changes in law may include a profitability cap on solar farms equal to 3.0% per annum above the 10-year Spanish government Bond rate.

Whilst it is unclear the exact terms upon which this will be implemented, or whether it will be implemented at all, Keybridge has determined to take an additional impairment against its solar asset of approximately $1.5 million.

Keybridge received no repayments from its Infrastructure investment during the six months to 31 December 2013 and accrued $0.4 million in income.

4. Financial risk management (continued)

Exposure to credit risk (continued)

Private equity:

Keybridge has a limited recourse loan to RPE1 Investor LLC, a Colorado USA limited liability company which hold units in a Private Equity Fund. This loan accrues interest at 14.5% per annum and has a maturity date of 31 December 2017. Keybridge's loan of USD4.8 million is supported by security over equity which RPE1 Investor LLC has estimated at a fair value of USD37.9 million at 30 September 2013.

Listed Equity:

Keybridge holds an 18.5% investment in ASX-listed PTB Group Limited (PTB), which is a turbo prop aircraft parts and services supply organisation with operations in Queensland and New South Wales. This investment is marked-to-market at each balance date, which, as at 31 December 2013, resulted in a decline in value of $0.8 million from 30 June 2013.

The other listed investment held by Keybridge is a 14.99% holding in ASX-listed Aurora Funds Limited (AFV). Keybridge initially purchased 548,000 shares or 5% of the paid up capital in August 2013 at 45 cents per share which were marked-to-market as at 31 December 2013 resulting in a $0.1 million uplift. The remaining 1,097,150 or 10% shares were purchased on 31 December 2013 at 65 cents per share. The closing price of AFV as at 31 December was 65 cents per share.

Property:

In 2007 and 2008, Keybridge invested $5.95 million in mezzanine loans against a residential and retail property development located in an inner Sydney suburb. The project involves the progressive development of four lots. Three out of the four lots have completed development with the majority of the properties having been sold. Keybridge's loans are currently in default and accumulating interest such that the current face value of the loans outstanding is approximately $9.3 million. As there is a significant risk that the Company will not recover its loans in full, the Company had been carrying the loan on its Balance Sheet at nil as at 30 June 2013.

As discussed above, on 17 February 2014, Keybridge was repaid approximately $3.0 million as partial repayment of its outstanding loan. As it became likely that this payment would occur, a reversal of the impairment was made, which had the impact of increasing the carrying value of the loan to P&J during the six months to 31 December 2013. There may be further recovery from this asset in due course, however the Company continue to value future recoveries at nil

The other property investment is a loan to a fund which invests in first ranking mortgage loans over commercial properties. Keybridge is currently the sole lender to a portfolio with three loans outstanding, two of which relate to a property in the Sydney suburb of Manly. These two loans are under active management with a receiver appointed to the loans in June 2009. The fund manager has commenced a claim against the valuer who provided the initial valuation for the Manly property funding. Keybridge expects that the claim will be defended and accordingly at this time the likelihood of any additional recovery under the claim is unknown.

4. Financial risk management (continued)

Exposure to credit risk (continued)

Lending:

Keybridge has two investments in the Lending asset segment.

In August 2013, Keybridge completed its purchase of PRFG for $1.35 million in cash and $0.5 million Keybridge shares. The acquisition of PRFG allowed Keybridge to protect its investment and assume a greater influence in negotiating a sale of the motor vehicle division, which occurred in September 2013.

Keybridge was repaid $10.5 million of its $11.7 million written down loan amount. In October 2013, the PRFG directors appointed an Administrator after the Australian Securities and Investment Commission (ASIC) issued a letter to AMX Money (AMX), a wholly-owned subsidiary of PRFG, expressing concerns that AMX may be breaching National Consumer Credit Laws and should immediately cease activity that may contravene these laws.

With the appointment of the Administrator, Keybridge is no longer required to consolidate the financial results of PRFG and therefore Keybridge has removed the assets and liabilities from the Statement of Financial Position for the six-months to 31 December 2013. As previously announced to shareholders, the Keybridge Directors have impaired Keybridge's equity investment of $1.85 million to nil, however the loan is carried at $1.2 million.

AMX has continued to trade under Administration while offering a limited range of products in accordance with ASIC requirements and is pursuing alternative licencing arrangements which will allow it to expand its product offering in due course.

As a result of the relationship with PRFG, in September 2013, Keybridge lent $300,000 to Carbon Polymers Ltd (CBP) for 90 days at 15% interest per month. Security is a first-ranking fixed and floating charge over all company assets, which are valued at more than $3 million. Full repayment is expected by mid March 2014, following an extension granted in December 2013.

Shipping:

As at 30 June 2013, Keybridge held an effective 48.5% investment in Oceanic Shipping Company 8 Limited (Oceanic Shipping). Oceanic Shipping owned three shipping vessels which were previously chartered to Honglam. On termination of the Honglam charter, Oceanic Shipping commenced operating the vessels and required further working capital from shareholders to continue to operate. The other significant shareholder in Oceanic Shipping declined to participate and offered to sell their 48.5% interest in Oceanic Shipping to Keybridge for USD1,000.

This was an opportunity for Keybridge to increase its share in Oceanic Shipping and be exposed to a greater share of any upside in the future disposal of the three vessels. On 1 July 2013, Keybridge acquired an additional 48.5% of the equity it did not already own in Oceanic Shipping. As a result of the acquisition of the additional shares and the control it now possesses, Keybridge is now required to consolidate the financial results of Oceanic Shipping for the six months to 31 December 2013.

The three vessels have been sold in February 2014 and are forecast to realise $18.1 million which is approximately $3.7 million lower than the carrying value of the vessels. This has required Oceanic Shipping to recognise impairments for the six months to 31 December 2013.

Due to the non-recourse nature of the loan Oceanic Shipping will realise a gain of $4.1 million on the extinguishment of the unpaid balance of the debt to the senior lenders.

The disposal of Oceanic Shipping will allow Keybridge to no longer consolidate the subsidiary and therefore any losses recognised in these interim results will be reversed in the full year results.

No repayments were received from its shipping transactions and the Company recognised a nil profit on the equity-accounted investments in the period to 31 December 2013.

4. 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 31 December 2013 the Group had no corporate borrowings.

There is an asset-specific loan which is non-recourse to Keybridge. The asset-specific loan is secured against the certain shipping vessels and is recorded as current liabilities due to the facility being due for repayment in March 2014.

When and where the Group manages liquidity risk via:

- compliance with repayment obligations under its secured corporate bank loans;
- monitoring forecast and actual cash flows, including asset sales and cash investment income;
- maintaining a minimum cash balance; and
- regular reporting of cash flow forecasts for the next 12 to 18 months to the Board and AFRC.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, equities, ship prices will affect the Group's asset values, and hence profitability. The objective of market risk management is to manage and seek to control risk exposures within acceptable parameters, while optimising expected returns.

The Company is exposed to equity risk on shares in ASX-listed companies to the amount of $2.9 million (June 2013: $2.7 million). The Company adjusts the carrying value of these assets on a mark-to-market basis.

The Group is also exposed to movements in market prices for ships and real estate, as these assets provide security for loan and receivables investments. Equity-accounted investments are also exposed to movements in currency and asset values for the underlying infrastructure investment.

Interest rate risk

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

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

Foreign currency risk

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

The balance of assets 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.

5. Business segments

The Group has six reportable segments, as described below, which are the Company's strategic business segments. The Company's Executive Director reviews internal management reports on at least a monthly basis for each of these strategic business segments, and is the chief operating decision-maker. The following summary describes the operations in each of the Group's reportable segments:

- *Infrastructure:* Loan and equity investment in a renewable energy facility.
- *Private Equity:* Loans to an entity investing in a preferred equity investment to entities in a range of industries.
- *Property:* Includes loans to property developers and investors that are supported by development and construction projects and other property-related investments. The property projects underlying the Group's loans are residential, commercial and industrial projects located in Australia.
- *Listed Equity:* Comprises investments in listed equities which currently have exposure to the aviation and funds management sectors.
- *Lending:* Senior secured loans and subordinated loans to entities in a range of industries.
- *Shipping:* Loans to and equity investments in ships and ship holding companies chartered for various terms to ship operating companies.

Information regarding the results of each reportable segment is included in this note. Performance is measured based on operating income less net impairment expense, unrealised losses on embedded derivatives and other assets and foreign exchange losses as included in the internal management reports that are reviewed by the Company's Executive Director.

Segment results are used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other segments within the Group's loans and investments. This allows management to determine where to best allocate the Group's resources as well as enabling the evaluation of the results to other lenders in the different industries.

Keybridge Capital Limited and Controlled Entities

ABN 16 088 267 190

Notes to the Condensed Consolidated Interim Financial Report
For the half year ended 31 December 2013

5. Business segments (continued)

For the six months ended 31 December 2013

	Infrastructure		Private Equity		Property		Listed Equity*		Lending		Aviation *		Shipping**		Consolidated	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Operating income	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Fees	-	-	-	-	-	-	-	-	3	85	-	-	24	12	27	97
Interest income	406	592	378	-	-	-	-	-	41	1,356	-	930	28	-	854	2,877
Shipping income													5,800	-	5,800	-
Unrealised gain/(loss) on other investments	-	-	-	-	-	-	(700)	611	-	-	-	-	-	-	(700)	611
Unrealised gain/(loss) on disposal of investments	-	-	-	-	-	-	-	-	-	-	17	-	-	-	17	-
Dividends received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income	-	-	-	-	-	139	-	-	18	126	-	-	-	-	18	264
Total operating income	406	592	378	-	-	139	(700)	611	62	1,567	17	930	5,852	12	6,016	3,850
Unrealised gain/(loss) on revaluation of foreign currency assets, net changes in fair value of cash flow hedges and realised foreign exchange gain on disposal of investments	559	173	186	(365)	-	-	-	-	-	-	-	(722)	(27)	(1)	717	(915)
Shipping expenses	-	-	-	-	-	-	-	-	-	-	-	-	(6,165)	-	(6,165)	-
Shipping gain on reversal of loan liability	-	-	-	-	-	-	-	-	-	-	-	-	4,113	-	4,113	-
Shipping goodwill impairment	-	-	-	-	-	-	-	-	-	-	-	-	(455)	-	(455)	-
Add: reversed impairments	-	-	-	-	3,000	-	-	-	-	-	-	-	-	550	3,000	550
Less impairments	(1,507)	-	-	-	-	-	-	-	(1,850)	-	-	(4,141)	(3,692)	-	(7,049)	(4,141)
Reportable segment profit/(loss) before income tax	(542)	765	564	(365)	3,000	139	(700)	611	(1,788)	1,567	17	(3,323)	(374)	561	178	(656)

Business segments	**Infrastructure**		**Private Equity**		**Property**		**Listed Equity***		**Lending**		**Aviation ***		**Shipping****		**Consolidated**	
	31-Dec	**30-Jun**	**31-Dec**	**30-Jun**	**31-Dec**	**30-Jun**	**31-Dec**	**30-Jun**	**31-Dec**	**30-Jun**	**31-Dec**	**30-Jun**	**31-Dec**	**30-Jun**	**31-Dec**	**30-Jun**
	2013	**2013**	**2013**	**2013**	**2013**	**2013**	**2013**	**2013**	**2013**	**2013**	**2013**	**2013**	**2013**	**2013**	**2013**	**2013**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Gross Segment assets	13,618	12,662	5,433	4,869	9,592	9,832	2,960	2,700	2,605	12,838	-	-	31,103	16,519	65,310	59,420
Less impairment provisions	(6,612)	(4,542)	-	-	(4,388)	(7,388)	-	-	(1,159)	(1,159)	-	-	(10,808)	(16,519)	(22,967)	(29,608)
Other segment liabilities	-	-	-	-	-	-	-	-	-	-	-	-	(20,270)	-	(20,270)	-
Net Segment assets	7,006	8,120	5,433	4,869	5,204	2,444	2,960	2,700	1,446	11,679	-	-	25	-	22,073	29,812

* PTB shares were previously reported under the Aviation segment and now are reported in the Listed Equity segment.

** Shipping now includes the consolidation of Oceanic Shipping Company 8 Limited.

5. Business segments (continued)

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

	31 Dec 2013	31 Dec 2012
Operating income	**$'000**	**$'000**
Total operating income for reportable segments	6,016	3,850
Bank interest received	336	56
Consolidated operating income	6,352	3,906
Profit or loss		
Total profit or loss for reportable segments	178	(656)
Other profit or loss	(505)	29
Unallocated amounts: other corporate expenses	(942)	(1,076)
Unallocated amounts: net finance costs	(34)	(382)
Consolidated loss before income tax	(1,303)	(2,085)

	31 Dec 2013	30 June 2013
Assets	**$'000**	**$'000**
Total assets for reportable segments	42,343	29,812
Other unallocated amounts	20,301	12,674
Consolidated total assets	62,644	42,486
Liabilities		
Total liabilities for reportable segments	20,270	-
Other unallocated amounts	1,148	443
Consolidated total liabilities	21,418	443

6. Seasonality of operations

The Group's segments are not impacted by seasonal fluctuations, other than in infrastructure, where a lack of sunshine in the northern hemisphere winter will reduce productivity of the solar panels. In turn, this may impact their cash flow and ability to deliver electricity to the supplier. On the whole, seasonal factors have not materially impacted the Group's financial results for the six months ended 31 December 2013, with such seasonality factored into the investment expectation.

7. Discontinued operation

On 21 October 2013, an Administrator was appointed to PRFG and its subsidiaries. With the appointment of the Administrator, Keybridge no longer controlled PRFG and was not required to consolidate the results of PRFG from the date of administration. This resulted in eliminating PRFGs assets and liabilities from the Group's results as at 31 December 2013.

	31 Dec 2013 $'000	31 Dec 2012 $'000
Results of discontinued operation (PR Finance Group)		
Revenue	3,966	-
Expenses	(4,631)	-
Results from operating activities	(665)	-
Income tax expense	(893)	-
Results from operating activities, net of tax	(1,559)	-
loss on sale of discontinued operation	(5,955)	-
Loss for the period	(7,514)	-
Basic earnings (loss) per share (dollars)	(0.04)	-
Diluted earnings (loss) per share (dollars)	(0.04)	-

The loss from discontinued operation of $7.5 million (2012: nil) is attributable entirely to the owners of the Company.

	31 Dec 2013 $'000	31 Dec 2012 $'000
Cash flows from /(used in) discontinued operation (PR Finance Group))		
Net cash used in operating activities	(2,293)	-
Net cash from investing activities	52,278	-
Net cash from financing activities	(49,985)	-
Effect on cash flows	-	-

Effect of disposal on the financial position of the Group

	2013 $'000	2012 '$000
Cash and cash equivalents	(986)	-
Inventories	(4)	-
Other current assets	(103)	-
Trade and other receivables	(2,339)	-
Investments in partnerships	(732)	-
Property, plant and equipment	(247)	-
Deferred tax assets	(8,486)	-
Goodwill and other intangible assets	(2,108)	-
Loan receivables	1,152	-
Investment in other companies	1,850	-
Trade and other payables	5,950	-
Borrowings	-	-
Deferred tax liabilities	(9)	-
Provisions	107	-
Total identifiable net assets	(5,955)	-
Consideration received, satisfied in cash	-	-
Cash and cash equivalents disposed of	(986)	-
Net cash inflow/(outflow)	(986)	-

8. Disposal group held for sale

On 15 September 2013, management committed to a plan to sell Oceanic Shipping Company 8 Limited which is the entity that owns the underlying three vessels. Accordingly, this subsidiary is presented as a disposal group held for sale. As at the date of this report, the three vessels have been sold.

	31 Dec 2013 $'000
Cash	267
Inventories	436
Other current assets	1,466
Vessels	18,126
Trade and other payables	(1,222)
Borrowings	(19,048)
Total identifiable assets	25

9. Acquisition of subsidiary and non-controlling interests

Acquisition of subsidiary PRFG

In 2007, Keybridge provided a mezzanine loan to PRFG. Since then, the mezzanine loan has been restructured a number of times because PRFG would have been unable to repay the loan at the relevant maturity dates. As at the date of this acquisition, the loan was not performing in that interest payments had been stopped by PRFG's senior financier due to covenant breaches that occurred in January and February 2013. The outstanding amount owing from PRFG under the mezzanine loan as at the end of June 2013 was $15.1 million.

On 30 March 2013, PRFG and Keybridge entered into a Scheme Implementation Deed regarding a Scheme of Arrangement whereby implementation of the Scheme would result in Keybridge purchasing 100% of the issued capital in PRFG for initial consideration of $1.85 million.

On 28 June 2013, the Group acquired 100% of the shares and voting interests of PRFG. As a result, the Group's equity interest in PRFG increased from 0% to 100% and obtained control of PRFG as at 18 August 2013, after the settlement for the shares occurred.

The primary reason for the acquisition was to enable Keybridge to better protect its existing mezzanine loan, in light of PRFG's circumstances at the time with its senior financier. Keybridge proposed the acquisition as a mechanism to stabilise PRFG, pending the sale of the underlying motor vehicle division.

In the period 18 August 2013 to 21 October 2013, PRFG contributed revenue of $3.9 million and loss of $1.6 million to the Group's results. Management estimates that if the reporting included financial results from 1 July 2013, then consolidated revenue would have been $4.0 million and consolidated loss for the period would have been $3.4 million. In determining these amounts, management has assumed that the provisional fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2013.

Consideration transferred

The following table summarises the acquisition-date fair value of each major class of consideration transferred:

	31 Dec 2013 $'000
Cash (net of acquisition costs)	1,350
2.5 million Keybridge Capital ordinary shares	500
Settlement of pre-existing relationship	11,679
	13,529

9. Acquisition of subsidiary and non-controlling interests (continued)

Acquisition of subsidiary PRFG (continued)

Equity instruments issued

The fair value of the ordinary shares issued was based on an agreed share price of the Company at 28 June 2013 of $0.20 per share.

Identifiable assets acquired and liabilities assumed

The following summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	31 Dec 2013 $'000
Cash and cash equivalents	825
Trade and other receivables	58,240
Inventories	2,748
Other current assets	298
Investments in partnerships	725
Property, plant and equipment	773
Deferred tax assets	28,630
Goodwill and other intangible assets	3,303
Trade and other payables	(3,364)
Borrowings	(40,000)
Deferred tax liabilities	(30,190)
Provisions	(944)
Total identifiable net assets	21,043

The following fair values have been determined on a provisional basis:

- The fair value of finance lease receivables are recognised at the beginning of the lease term at an amount equal to the present value of an aggregate of the minimum lease payments and an estimate of the value of any unguaranteed residual value expected to accrue to the benefit of the Company at the end of the lease term. The present value is calculated by discounting at the interest rate implicit in the lease.
- The lease contracts with the customers do not identify an effective interest rate. The accounting standards require that the finance lease receivables are discounted at a rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments and the unguaranteed residual value to be equal to the sum of the fair value of the leased asset and any initial direct costs of the lessor. The Group has applied a discount rate of 9% per annum to finance lease receivables to calculate their initial present values, the initial finance lease sale of goods, and the subsequent finance lease interest income over time. In the absence of a generally accepted industry benchmark for the discount rate applicable to the group's business model, management have calculated this rate based largely on internal information such as its cost of debt and its historical recovery performance.
- *Lease unguaranteed residual values* - At the end of the term of the consumer lease contracts, the customers can either return the vehicle; offer to purchase the vehicle at a price to be negotiated at the time; or continue leasing the vehicle. For accounting purposes, the group applies a standard formula to determine the unguaranteed residual value of the vehicle that is considered a reasonable estimate of the wholesale value of the vehicle at the end of the term based on general market information. Changes to the residual value could have a significant impact on the profit, asset carrying values and future cash flows

9. Acquisition of subsidiary and non-controlling interests (continued)

Acquisition of subsidiary PRFG (continued)

- *Discount of customer loans* - Long term interest-free customer loan receivables are discounted to their present value using a discount rate that is based upon various factors including the historical loss and recovery profile and current trends. The Group has applied a discount rate of 9% per annum to customer loans to calculate their present values and the associated discount cost on new customer loans and the revenue from the release of discount.
- *Doubtful customer receivables provision* - Trade & other receivables include a provision for doubtful customer receivables that is based upon current information about each receivable at the balance date and historical & current trends in expected recovery.
- ***Bargain purchase gain***
  Bargain purchase arising from the acquisition has been recognised as follows:

	31 Dec 2013 $'000
Total consideration transferred	13,529
Fair value of identifiable assets	21,043
Bargain purchase price gain	7,514

- The bargain purchase is attributable mainly to the acquisition of the two divisions in PRFG being the motor vehicle division and AMX lending.
- ***Acquisition-related costs***

  The Group incurred acquisition-related costs of $0.15 million relating to external legal fees and due diligence costs. These amounts have been included in administrative expenses in the condensed consolidated statement of profit or loss.

Acquisition of subsidiary Oceanic Shipping Company 8 Limited (Oceanic Shipping)

As at 30 June 2013, Keybridge held an effective 48.5% investment in Oceanic Shipping Company 8 Limited (Oceanic Shipping). Oceanic Shipping owns three shipping vessels which were previously chartered to Honglam. On termination of the Honglam charter, Oceanic Shipping commenced operating the vessels and required further working capital from shareholders to continue to operate. The other significant shareholder in Oceanic Shipping declined to participate and offered to sell their 48.5% interest in Oceanic Shipping to Keybridge for USD1,000.

This was an opportunity for Keybridge to increase its share in Oceanic Shipping and be exposed to a greater share of any upside in the future disposal of the three vessels. On 1 July 2013, Keybridge acquired an additional 48.5% of equity it did not own in Oceanic Shipping. As a result of the acquisition of the additional shares and the control it now possesses, Keybridge is now required to consolidate the financial results of Oceanic Shipping for the six months to 31 December 2013.

Consideration transferred

The following table summarises the acquisition-date fair value of each major class of consideration transferred:

	31 Dec 2013 $'000
Cash	1
Equity instruments	-
	1

9. Acquisition of subsidiary and non-controlling interests (continued)

Acquisition of subsidiary Oceanic Shipping Company 8 Limited (Oceanic Shipping) (continued)

Identifiable assets acquired and liabilities assumed

The following summarises the recognised amounts of Oceanic Shipping Company 8 Limited assets acquired and liabilities assumed at the acquisition date:

	31 Dec 2013 $'000
Cash and cash equivalents	6
Inventories	412
Other current assets	5,253
Vessels (held for sale)	21,321
Trade and other payables	(4,532)
Borrowings	(22,928)
Total identifiable net liabilities	(468)

The following fair values have been determined on a provisional basis:

- The fair-value of the three vessels is based on market values obtained from a third party valuer.

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	31 Dec 2013 $'000
Total consideration transferred	1
Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities of Oceanic Shipping Company 8 Limited	(14)
Fair value of existing interest in Oceanic Shipping Company 8 Limited	-
Fair value of identifiable liabilities	468
Goodwill	455

Goodwill is due to the difference between the net fair value of assets and liabilities acquired and the purchase price paid to the vendor shareholder.

Acquisition-related costs

The Group incurred acquisition-related costs of $6,000 relating to external legal fees costs. These amounts have been included in legal and professional expenses in the Condensed Consolidated Statement of Profit or Loss.

10. Interest

	31 Dec 2013 $'000	**31 Dec 2012 $'000**
Interest on bank deposits	336	56
Interest on loans and advances - third parties	854	2,878
	1,190	2,934

There is $0.4 million (2012: nil) of accrued income related to the Private Equity investment which is not impaired and $0.5 million of accrued income related to the Infrastructure investment on impaired financial assets for the six months ended 31 December 2013 (2012: $0.3 million).

11. Administration expenses

	31 Dec 2013 $'000	31 Dec 2012 $'000
Keybridge attributable costs	196	180
Oceanic Shipping attributable costs	339	-
	535	180

12. Finance costs

	31 Dec 2013 $'000	31 Dec 2012 $'000
Keybridge corporate debt interest	4	1,246
Oceanic Shipping debt interest	30	-
	34	1,246

13. Accounts payable

	31 Dec 2013 $'000	30 Jun 2013 $'000
Unsettled share purchases	714	-
Other accrued expenses	434	443
	1,148	443

The purchase of Aurora shares were settled on 3 January 2014.

Keybridge's accrued expenses include legal and professional fees, audit fees and directors' remuneration, all of which was settled by the end of January 2014.

14. Impairment provisions

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.

If there is objective evidence that an impairment loss on loans has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an impairment provision account. The amount of the loss is recognised in profit or loss.

In assessing the carrying value of loans and receivables 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.

14. Impairment provisions (continued)

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, the reversal is recognised in profit or loss.

During the six months to December 2013 the Group assessed the recoverability of the impairment provisions that had been recognised between June 2012 and 2013 and where it was deemed that a future repayment of an impaired loan was likely then the impairment has been written-back. There was one write-back of $3.0 million, on the P&J loan, in the six months to 31 December 2013.

The ageing of the loans and receivables at the reporting date was:

	Gross 31-Dec 2013	Impairment 31-Dec 2013	Net 31-Dec 2013	Gross 30-Jun 2013	Impairment 30-Jun 2013	Net 30-Jun 2013
	$'000	$'000	$'000	$'000	$'000	$'000
Not past due	19,354	(6,604)	12,749	29,196	(16,207)	12,989
Past Due 91-120	12,093	(12,093)	-	4,854	(4,854)	-
Past Due 180-365	2,312	(1,159)	1,153	19,198	(7,519)	11,679
More than one year	9,595	(4,407)	5,188	3,473	(1,029)	2,444
Total assets/(liabilities)	43,354	(24,263)	19,090	56,720	(29,608)	27,112

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

	Loans and Receivables		Investment in Associates	
	31-Dec 2013	30-Jun 2013	31-Dec 2013	30-Jun 2013
	$'000	$'000	$'000	$'000
Balance at 1 July	29,608	29,374	-	-
Impairment loss recognised (totana)	1,507	12,688	1,850	-
Impairment write-back in income statement	(3,000)	(550)	-	-
Foreign exchange movements on impairments	1,121	2,079	-	-
eliminate intercompany loan impairment	(4,974)	-	-	-
Loans realised/(written off)	0	(13,983)	-	-
Balance at end of period	24,263	29,608	1,850	-

The allocation of impairments by segment is provided in note 5 - Operating Segments.

Impairment losses for the six months to 31 December 2013 have come from two separate asset classes: Infrastructure and Lending.

As previously mentioned, in October 2013 the PRFG directors appointed an Administrator after Australian Securities and Investment Commission (ASIC) issued a letter to AMX Money (AMX), a wholly-owned subsidiary of PRFG, expressing concerns that AMX may be breaching National Consumer Credit Laws and should immediately cease activity that may contravene these laws.

With the appointment of the Administrator, the Keybridge Directors have impaired Keybridge's equity investment of $1.85 million to nil however the loan is still carried at $1.2 million.

14. Impairment provisions (continued)

In Infrastructure, a specific impairment against the sole remaining transaction has been raised. The impairment relates to the Spanish government indicating plans to introduce as law a profitability cap on solar farms equal to 3.0% per annum above the 10-year Spanish government Bond rate.

Whilst it is unclear the exact terms upon which this will be implemented, or whether it will be implemented at all, Keybridge has determined to take an additional impairment against its solar asset of approximately $1.5 million.

In Property, as discussed previously, it has been confirmed by P&J that Keybridge will receive approximately $3.0 million as partial repayment of its loan. This has allowed the Company to reverse an impairment of $3.0 million for the six months 31 December 2013.

In Private Equity, there are no impairments for the six months 31 December 2013.

In Shipping, please refer to note 16 below.

The Group's has recognised net impairment losses of $0.4 million for the six months 31 December 2013 (December 2012: $3.5 million).

Reversal of impairment loss

In the six months ended 31 December 2013, a $3.0 million impairment loss on P&J was reversed.

15. Shipping gain on reversal on loan liability

	31 Dec 2013 $'000	30 Jun 2013 $'000
Gain on reversal of borrowings on vessels	4,113	-
	4,113	-

The senior loan provided to Oceanic Shipping is secured by the three underlying vessels. The three vessels have been sold in February 2014 and are forecast to realise $18.1 million which is approximately $4.1 million lower than the outstanding debt. Due to the non-recourse nature of the loan Oceanic Shipping will realise a gain on the extinguishment of the unpaid balance of the debt to the senior lenders.

16. Shipping vessel impairment

	31 Dec 2013 $'000	30 Jun 2013 $'000
Impairment of vessels	3,692	-
	3,692	-

The three vessels have been sold in February 2014 and are forecast to realise $18.1 million which is approximately $3.7 million lower than the carrying value of the vessels. This has required Oceanic Shipping to recognise an impairment for the six months to 31 December 2013.

17. Intangible assets and goodwill

Goodwill

Reconciliation of carrying amount

	31 Dec 2013 $'000	30 Jun 2013 $'000
Cost		
Balance at beginning of period		-
Acquisition through business combination (see note 9)	455	-
Balance at end of period	455	-
Impairment losses		
Balance at beginning of period		
Impairment loss	(455)	-
Balance at end of period	-	-
Carrying amounts		
Balance at beginning of period	-	-
Balance at end of period	-	-

Following a loss in Oceanic Shipping in the six months ended 31 December 2013 the Group assessed the recoverable amount of the group of CGUs that comprise that operating segment. As a result, an unrealised impairment loss of $0.46 million (six months ended 31 December 2012: nil) has been recognised. The impairment loss was allocated to goodwill, reducing the goodwill included in Oceanic Shipping to nil; and is included in 'expenses' in the Condensed Consolidated Statement of Profit or Loss and comprehensive income.

On the disposal of the shares in Oceanic Shipping, goodwill loss may be reversed in the second-half financial year results.

18. Financial instruments

Fair values versus carrying amounts

For Loans and Receivables, the fair value is determined using an estimate of interest rates that may apply if these assets were refinanced as at 31 December 2013 and using the estimated cash flows as at balance date.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the condensed consolidated statement of financial position, are as follows:

	31 December 2013	
	Carrying amount $'000	Fair value $'000
Assets		
Cash and cash equivalents	20,093	20,093
Loans and Receivables	19,091	19,069
Other investments	2,960	2,960
Trade and other receivables	202	202
Liabilities		
Trade and other payables	(1,148)	(1,148)
	41,198	41,176

The difference between the carrying amount and the fair value of the Loans and Receivables is as a result of discounting the estimated future cash flows of the loan and receivable using prevailing market rates i.e. if the Group were to provide new loans and advances or acquire new borrowing facilities as at 31 December 2013 instead of the original effective interest rate.

18. Financial instruments

Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2013				
Other investments	2,960	-	-	2,960

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.

19. Capital and reserves

Issues of ordinary shares

In August 2013 the Board of Directors authorised the issuance of 2.5 million ordinary shares at a price of 20 cents per share (2012: nil). These shares were issued as a result of the acquisition of PR Finance Group (see note 9).

Dividends

There were no dividends declared and or paid by the Company.

20. Equity-accounted investments in associates

The Group's share of net loss in its equity-accounted investments in associates for the six months ended 31 December 2013 was $0.7 million loss (December 2012: $1.6 million loss). The loss relates to the Group's two equity-accounted investments, being Bridge Infrastructure Capital Pty Limited (BIC) and Ocean Star Limited (OSL). This accounting loss was not recognised in the results for the six months ended 31 December 2013 as the investment in associates was reduced to nil in the financial year ended 30 June 2009. In prior years the Group advanced one loan to BIC for subsequent investment in a solar infrastructure asset and a loan to OSL.

The Group has recognised impairments against one loan in Infrastructure and one loan in Shipping. As at 31 December 2013, the Group's carrying amount in the loans to associates totals $7.4 million (June 2013: $8.1 million) and is recognised in Loans and Receivables. The Group has no additional commitments as a result of the associate's equity being negative.

21. Taxation

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2013 is 0% as the Company has made a taxable loss (for the year ended 31 December 2012: 30.3%).

The Group continues not to recognise at 31 December 2013 deferred tax assets (DTAs) in relation to prior period's impairment provisions. This approach is consistent with the accounting treatment at 30 June 2013.

Unrecognised DTAs are permitted to be re-recognised in future periods to the extent they are considered probable of being utilised.

22. Share-based payments

Employee Equity Plan (Plan)

There is presently no equity plan.

23. Related party disclosure

Key management personnel and director transactions

A director, or their related parties, holds positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

One of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

		Transactions value period ended		**Balance outstanding as at**	
		31 Dec 2013	**30 Jun 2013**(ii)	**31 Dec 2013**	**30 Jun 2013**
		$'000	$'000	$'000	$'000
Director	*Transaction*				
Nicholas Bolton(i)	Consultant fees	-	54	-	-
		-	54	-	-

(i) The Company engaged the consultancy services of Australian Style Group Pty Ltd, where Nicholas Bolton is a director, in relation to assistance and input over sale of assets and corporate debt restructuring. Amounts were billed based on market rates for such services and were due and payable under standard payment terms. This arrangement terminated on 22 February 2013 when Nicholas Bolton became Executive Director.

(ii) Nicholas Bolton resigned as a director on 9 October 2012 and was reappointed on 2 January 2013.

Directors and key management personnel

Other than normal remuneration for Directors, there were no other transactions with Directors and key management personnel during the six months ended 31 December 2013.

24. Subsequent event

As announced in November 2013, Keybridge instigated a buy-back program to enable the Company to purchase up to 17.457 million shares of the Company's shares on issue. The price paid for shares under the buy-back is in accordance with the ASX Listing Rules and at a discount to internally calculated NTA. This buy-back was an opportunity for Keybridge to repurchase its own shares which have traded at discounts to NTA whilst also providing improved liquidity for shareholders who may wish to exit their investments. Since the 14 February 2014, the Company has purchased 15,533,054 shares.

Other than above, no other significant changes have occurred during the half-year period ended 31 December 2013.

Keybridge Capital Limited and Controlled Entities

ABN 16 088 267 190

Directors' Declaration

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

1. the financial statements and notes set out on pages 8 to 32, are in accordance with the *Corporations Act 2001*. including:

   (a) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the six month period ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

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

Signed in accordance with a resolution of directors:

Peter Wood
Chairman

Sydney, 25 February 2014

KPMG

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

Report on the financial report

We have reviewed the accompanying interim financial report of Keybridge Capital Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2013,condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the interim period ended on that date, notes 1 to 24 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2013 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Keybridge Capital Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Keybridge Capital Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

Madeleine Mattera

Partner

Sydney

25 February 2014