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# HALF YEAR REPORT

## 31 December 2016

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THIS DOCUMENT SHOULD BE READ IN CONJUNCTION WITH THE  
COMPANY'S [2016 ANNUAL REPORT](#)



ASX Codes: [KBC](#) and [KBCPA](#)

**Keybridge Capital Limited**  
A.B.N. 16 088 267 190

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**BOARD**

John D. Patton	Chairman
William M. Johnson	Non-Executive Director
Simon K. Cato	Non-Executive Director
Jeremy M. Kriewaldt	Non-Executive Director

**COMPANY SECRETARY**

Victor P. H. Ho

**REGISTERED AND PRINCIPAL OFFICE**

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**AUDITORS**

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**STOCK EXCHANGE**

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Sydney, New South Wales

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**ASX CODES**

[KBC](#) (Shares)  
[KBCPA](#) (Convertible Redeemable Preference Notes)

**SHARE REGISTRY**

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# APPENDIX 4D HALF YEAR REPORT

This Half Year Report is provided to the Australian Securities Exchange (**ASX**) under ASX Listing Rule 4.2A.3.

Current Reporting Period:	1 July 2016 to 31 December 2016
Previous Corresponding Period:	1 July 2015 to 31 December 2015
Reporting Date:	31 December 2016
Company:	Keybridge Capital Limited ( <b>KBC</b> or the <b>Company</b> )
Consolidated Entity:	KBC and controlled entities ( <b>Keybridge</b> )

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

CONSOLIDATED	Dec 2016 \$'000	Dec 2015 \$'000	% Change	Up / Down
Fees income	149	80	86%	Up
Net unrealised gain on financial assets at fair value through profit or loss	824	1,209	32%	Down
Net gain on revaluation of foreign currency assets	-	333	N/A	N/A
Net unrealised gain on derivative liabilities	-	88	N/A	N/A
Net gain on sale of investments	1,314	50	2,528%	Up
Share of Associate entity's profit	-	118	N/A	N/A
Interest	383	590	35%	Down
Other income	113	3,139	96%	Down
<b>Total revenue</b>	<b>2,783</b>	<b>5,607</b>	<b>50%</b>	<b>Down</b>
Share of Associate entity's loss	(43)	-	N/A	N/A
Net loss on revaluation of foreign currency assets	(99)	-	N/A	N/A
Net unrealised loss on derivative liabilities	(57)	-	N/A	N/A
Impairment expenses/(reversal)	22	(1,884)	101%	Down
Personnel expenses	(339)	(919)	63%	Down
Corporate expenses	(972)	(658)	48%	Up
Administration expenses	(124)	(250)	50%	Down
Other expenses	(77)	(162)	52%	Down
<b>Total expenses</b>	<b>(1,689)</b>	<b>(3,873)</b>	<b>56%</b>	<b>Down</b>
Finance expenses	(154)	(156)	1%	Down
<b>Profit before tax</b>	<b>940</b>	<b>1,578</b>	<b>40%</b>	<b>Down</b>
Income tax benefit/(expense)	-	1,139	N/A	N/A
Loss from discontinued operations	-	(966)	N/A	N/A
<b>Profit after tax attributable to members</b>	<b>940</b>	<b>1,751</b>	<b>46%</b>	<b>Down</b>
Basic and diluted earnings per share (cents)	0.59	1.20 <sup>1</sup>	51%	Down
CONSOLIDATED	Dec 2016	June 2016	% Change	Up / Down
Pre-Tax Net Asset Backing per share (cents)	19.51	18.72	4%	Up
Post-Tax Net Asset Backing per share (cents)	19.51	18.72	4%	Up
Based on total issued capital	158,812,327	158,812,327		

## BRIEF EXPLANATION OF RESULTS

Keybridge's principal activities during the half year were management of its portfolio of listed and unlisted investments/loan assets.

With respect to securities investment and trading activities, Keybridge generated a total net realised and unrealised gain of \$2.138 million (pre and post-tax) for the half year, comprising:

- Net unrealised gains of \$2.115 million;
- Net realised gains of \$1.314 million; and

<sup>1</sup> Net of 0.60 cent loss per share attributable to Discontinued Operations

# APPENDIX 4D HALF YEAR REPORT

- (c) The accounting reversal of prior year unrealised gain/loss on investments sold during the half year of \$1.291 million (which is offset against the net unrealised gains of \$2.115 million (above)).

Please refer to the Directors' Report and financial statements and notes thereto for further information on a review of Keybridge's operations and financial position and performance for the half year ended 31 December 2016.

## DIVIDENDS

The Directors have not declared payment of a dividend.

## CRPN DISTRIBUTIONS

During the financial half year, the Company paid interest distributions to holders of its Convertible Redeemable Promissory Notes (ASX:[KBCPA](#)) (CRPN) as follows:

Distribution Rate	Record Date	Payment Date	Franking <sup>2</sup>
<a href="#">1.75 cent</a> per note	20 December 2016	21 December 2016	100% franked
<a href="#">1.75 cent</a> per note	20 September 2016	21 September 2016	100% franked

## CONTROLLED ENTITIES and ASSOCIATES and JOINT VENTURE ENTITIES

The Company has accounted for the following share investment at Balance Date as an investment in an Associate entity (on an equity accounting basis):

- 25.49% interest (22,646,973 units) in [HHY Fund](#) (ASX:[HHY](#)) (30 June 2016: 21.62%; 20,646,973 shares).

The Company notes that it has a 50% interest in BIC Infrastructure Capital Pty Limited (30 June 2016: 50%), which is regarded as a jointly controlled entity (also accounted on an equity accounting basis but impaired to a carrying value of nil). This entity owns the Totana Solar Park asset in Spain, which development was funded by debt finance provided by the Company.

On 15 November 2016, the Company sold its shareholding (100%) in Keybridge Funds Management Pty Limited (**KFM**), a dormant company, to an entity associated with former Director, Antony Sormann (who had resigned on 13 October 2016).

For and on behalf of the Directors,



Victor Ho  
Company Secretary

Date: 28 February 2017

Telephone: (08) 9214 9767

Email: [cosec@keybridge.com.au](mailto:cosec@keybridge.com.au)

<sup>2</sup> A fixed interest rate of 7% per annum is generally payable in arrears on 20 March, 20 June, 20 September and 20 December of each year. CRPN's are regarded as an 'equity interest' under Australian tax law with interest payments regarded as a 'non-share dividend'. Interest payments will be fully franked (where possible) or grossed up with additional cash payments to compensate for any unfranked component. 'Qualified' Australian resident holders will have access to franking credits in this regard. Further details are in Note 7 of the accompanying financial statements and in the [CRPN Prospectus](#) (dated 17 June 2015).

# DIRECTORS' REPORT

The Directors present their Directors' Report on Keybridge Capital Limited ABN 16 088 267 190 (**Company** or **KBC**) and its controlled entities (the **Consolidated Entity** or **Keybridge**) for the financial half year ended 31 December 2016 (**Balance Date**).

Keybridge is a company limited by shares that was incorporated in New South Wales in June 1999 and has been listed on the Australian Securities Exchange (**ASX**) since [December 1999](#) (ASX Code:[KBC](#)).

The Company has prepared a consolidated financial report incorporating the entities that it controlled during the financial half year, being wholly owned subsidiaries.

## PRINCIPAL ACTIVITIES

KBC is an investment and financial services group with a diversified portfolio of listed and unlisted investments/loan assets including in the solar (Spain), private equity (US), life insurance (New Zealand), property and funds management sectors and strategic holdings in [HHY Fund](#) (ASX:[HHY](#)), [Molopo Energy Limited](#) (ASX:[MPO](#)), [Metgasco Limited](#) (ASX: [MEL](#)) and [PTB Group Limited](#) (ASX:[PTB](#)).

## NET ASSET BACKING

<b>CONSOLIDATED</b>	<b>December 2016</b>	<b>June 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Gross assets	36,013	35,008
Less: Liabilities	(5,030)	(5,270)
Net assets	<u>30,983</u>	<u>29,738</u>
<b>Pre-tax Net Asset Backing per share (cents)</b>	<b>19.51</b>	<b>18.72</b>
Less: Net deferred tax asset/liabilities /tax provision	-	-
Net assets (after tax)	<u>30,983</u>	<u>29,738</u>
<b>Post-tax Net Asset Backing per share (cents)</b>	<b>19.51</b>	<b>18.72</b>
Based on total issued shares	<u>158,812,327</u>	<u>158,812,327</u>

Keybridge's 31 January 2017 pre and post-tax Net Asset Backing was 19.02 cents per share (unaudited) <sup>3</sup>.

## FINANCIAL POSITION

<b>CONSOLIDATED</b>	<b>December 2016</b>	<b>June 2016</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash	2,060	1,665
Investments	12,897	13,095
Loans and receivables	17,679	17,222
Investment in Associate entity	2,859	2,662
Other assets	<u>518</u>	<u>364</u>
<b>Gross Assets</b>	<b>36,013</b>	<b>35,008</b>
Convertible redeemable promissory notes liability	(4,260)	(4,203)
Other liabilities	<u>(770)</u>	<u>(1,067)</u>
<b>Total Liabilities</b>	<b>(5,030)</b>	<b>(5,270)</b>
Net deferred tax asset / liabilities	-	-
<b>Net Assets</b>	<b><u>30,983</u></b>	<b><u>29,738</u></b>
Issued capital	253,717	253,717
Share-based payments reserve	592	287
Profits reserve	2,466	1,526
Accumulated losses	<u>(225,792)</u>	<u>(225,792)</u>
<b>Total Equity</b>	<b><u>30,983</u></b>	<b><u>29,738</u></b>

<sup>3</sup> Refer KBC ASX Announcement dated [21 February 2017: Net Asset Backing - January 2017](#)

# DIRECTORS' REPORT

## OPERATING RESULTS

CONSOLIDATED	December 2016 \$'000	June 2016 \$'000
Fees income	149	80
Net unrealised gain on financial assets at fair value through profit or loss	824	1,209
Net gain on revaluation of foreign currency assets	-	333
Net unrealised gain on derivative liabilities	-	88
Net gain on sale of investments	1,314	50
Share of Associate entity's profit	-	118
Interest	383	590
Other income	113	3,139
<b>Total revenue</b>	<b>2,783</b>	<b>5,607</b>
Share of Associate entity's loss	(43)	-
Net loss on revaluation of foreign currency assets	(99)	-
Net unrealised loss on derivative liabilities	(57)	-
Impairment expenses/(reversal)	22	(1,884)
Personnel expenses	(339)	(919)
Corporate expenses	(972)	(658)
Administration expenses	(124)	(250)
Other expenses	(77)	(162)
<b>Total expenses</b>	<b>(1,689)</b>	<b>(3,873)</b>
Finance expenses	(154)	(156)
<b>Profit before tax</b>	<b>940</b>	<b>1,578</b>
Income tax benefit/(expense)	-	1,139
Loss from discontinued operations	-	(966)
<b>Profit after tax attributable to members</b>	<b>940</b>	<b>1,751</b>

With respect to securities investment and trading activities, Keybridge generated a total net realised and unrealised gain of \$2.138 million (pre and post-tax) for the half year, comprising:

- (a) Net unrealised gains of \$2.115 million, including:
  - (i) \$1.185 million unrealised gain attributable to Molopo Energy Limited (ASX:[MPO](#));
  - (ii) \$0.907 million unrealised gain attributable to PTB Group Limited (ASX:[PTB](#));
  - (iii) \$0.364 million unrealised gain attributable to Metgasco Limited (ASX:[MEL](#)); and
  - (iv) \$0.345 million unrealised loss attributable to Copper Strike Limited (ASX:[CSE](#)).
- (b) Net realised gains of \$1.314 million (from cost), including:
  - (i) \$0.792 million realised gain on sale of PTB Group Limited (ASX:[PTB](#));
  - (ii) \$0.322 million gain on sale of Copper Strike Limited (ASX:[CSE](#)); and
  - (iii) \$0.178 million realised gain on sale of options (ASX:NACO) in NAOS Absolute Opportunities Company Limited (ASX:[NAC](#)).
- (c) The accounting reversal of prior year unrealised gain/loss on investments sold during the half year of \$1.291 million (which is offset against the net unrealised gains of \$2.115 million (above)).

## EARNINGS PER SHARE

CONSOLIDATED	December 2016 cents	December 2015 cents
Earnings per share (cents)	0.59	1.20 <sup>4</sup>

<sup>4</sup> Net of 0.60 cent loss per share attributable to Discontinued Operations

# DIRECTORS' REPORT

## DIVIDENDS

The Directors have not declared payment of a dividend.

## CRPN DISTRIBUTIONS

During the financial half year, the Company paid interest distributions to holders of its Convertible Redeemable Promissory Notes (ASX:[KBCPA](#)) (CRPN) as follows:

Distribution Rate	Record Date	Payment Date	Franking <sup>5</sup>
<a href="#">1.75 cent</a> per note	20 December 2016	21 December 2016	100% franked
<a href="#">1.75 cent</a> per note	20 September 2016	21 September 2016	100% franked

## SECURITIES ON ISSUE

Class of Security	31 December 2016		30 June 2016	
	Quoted on ASX	Unlisted	Quoted on ASX	Unlisted
Fully paid ordinary shares (ASX: <a href="#">KBC</a> )	158,812,237	-	158,812,237	-
Executive Share Plan shares <sup>6</sup>	-	15,000,000	-	15,000,000
Convertible Redeemable Promissory Notes (ASX: <a href="#">KBCPA</a> ) <sup>7</sup>	4,401,047	-	4,401,047	-

## ON-MARKET BUY BACKS

The Company's 12 month on-market buy-back programmes in respect of its shares (announced on [23 November 2015](#)) and CRPN's (announced on [6 October 2015](#)) were completed during the half year:

- No shares were bought-back (as announced on [23 December 2016](#)); and
- 24,885 CRPN's were bought-back (between a range of \$0.98 to \$1.00 per note) at a total cost of \$24,662 (as announced on [21 December 2016](#)) – no trades occurred during the half year.

On [18 January 2017](#), KBC announced an intention to undertake an on-market buy-back of up to 14,293,109 shares (being ~9% of 158,812,327 total shares on issue) on or before 15 December 2017.

Also on [18 January 2017](#), KBC announced an intention to undertake an on-market buy-back of up to 440,104 CRPNs (being ~10% of 4,401,047 total notes on issue) on or before 17 January 2018.

No shares or CRPNs have been bought-back as at the date of this report.

5 A fixed interest rate of 7% per annum is generally payable in arrears on 20 March, 20 June, 20 September and 20 December of each year. CRPNs are regarded as an 'equity interest' under Australian tax law with interest payments regarded as a 'non-share dividend'. Interest payments will be fully franked (where possible) or grossed up with additional cash payments to compensate for any unfranked component. 'Qualified' Australian resident holders will have access to franking credits in this regard. Further details are in Note 7 of the accompanying financial statements and in the [CRPN Prospectus](#) (dated 17 June 2015).

6 Issued on 10 December 2014 (refer KBC ASX Announcement dated 19 December 2014: [Appendix 3B and Further Detail Regarding Issuance of Loan Funded Shares](#)) after receipt of shareholder approval at an annual general meeting held on 28 November 2014 (refer KBC [Notice of AGM](#) released on ASX on 30 October 2014 and KBC ASX announcement dated 1 December 2014: [Results of AGM](#)).

7 Keybridge issued Convertible Redeemable Promissory Notes on 30 June 2015 (refer KBC ASX Announcement dated 18 June 2015: [Appendix 3B](#)) after receipt of shareholder approval on 28 November 2014 (refer KBC [Notice of AGM](#) released on ASX on 30 October 2014 and KBC ASX announcement dated 1 December 2014: [Results of AGM](#)). The notes have a face value of \$1.00, pays interest at 7% pa and matures on 31 July 2020 (unless redeemed or bought-back by Keybridge earlier). Further details are in Note 7 of the accompanying 31 December 2016 financial statements and in the [CRPN Prospectus](#) (dated 17 June 2015).

# DIRECTORS' REPORT

## REVIEW OF OPERATIONS

### Net Assets Weightings

A summary of Keybridge's net asset weighting (by value and as a percentage of net assets) is:

	31 December 2016		30 June 2016		31 December 2015	
	\$'m	% Net Assets	\$'m	% Net Assets	\$'m	% Net Assets
Cash	2.060	7%	1.665	6%	3.862	11%
Investment in Associated entity	2.859	9%	2.662	9%	2.419	7%
Other Listed Securities	12.612	41%	13.091	44%	14.042	41%
Managed Funds	0.285	1%	0.004	<1%	0.003	<1%
Loan Receivables:						
• Private Equity	6.917	22%	6.740	23%	6.870	20%
• Infrastructure	6.074	20%	6.318	21%	6.538	19%
• Insurance	3.142	10%	3.279	11%	3.078	9%
• Property	0.885	3%	0.885	3%	1.156	3%
• Other	0.661	2%	-	-	-	-
Other Assets	0.518	2%	0.364	1%	4.802	14%
Convertible Redeemable Promissory Notes	(4.260)	(14%)	(4.203)	(14%)	(4.313)	(13%)
Provision for tax	-	-%	-	-%	-	-%
Other Liabilities	(0.770)	(3%)	(1.067)	(4%)	(3.953)	(11%)
<b>Net Assets</b>	<b>30.983</b>	<b>100%</b>	<b>29.738</b>	<b>100%</b>	<b>34.504</b>	<b>100%</b>

### Currency Exposure

A summary of Keybridge's exposure to foreign currencies (based on net assets held) is:

% of Net Assets	31 December 2016	30 June 2016	31 December 2015
Australian Dollars	46%	43%	51%
Euros	21%	23%	20%
US Dollars	22%	23%	20%
New Zealand Dollars	11%	11%	9%

### Major Investment Holdings

A summary of Keybridge's major investment holdings (by value and as a percentage of net assets) is:

Security	ASX Code	Industry Sector	31 December 2016		30 June 2016		31 December 2015	
			\$'m	% Net Assets	\$'m	% Net Assets	\$'m	% Net Assets
Molopo Energy Limited	<a href="#">MPO</a>	Energy	7.155	23%	5.752	19%	6.673	19%
PTB Group Limited	<a href="#">PTB</a>	Capital goods	3.837	12%	3.991	13%	3.338	10%
HHY Fund	<a href="#">HHY</a>	Financials	2.859	9%	2.662	9%	2.419	7%
Metgasco Limited	<a href="#">MEL</a>	Energy	1.044	3%	1.209	4%	0.704	2%
Copper Strike Limited	<a href="#">CSE</a>	Materials	0.430	1%	1.971	7%	0.923	3%
Other managed funds	-	-	0.285	1%	0.004	<1%	0.003	<1%
Other listed securities	-	-	0.146	<1%	0.168	1%	2.404	7%



# DIRECTORS' REPORT

## Major Loan Receivable Holdings

A summary of Keybridge's major loan receivable holdings is:

Loan Exposure to Industry Sector	31 December 2016 (\$'m)			30 June 2016 (\$'m)			31 December 2015 (\$'m)		
	Gross Value	Impairment	Carrying Value	Gross Value	Impairment	Carrying Value	Gross Value	Impairment	Carrying Value
Private Equity	6.917	-	6.917	6.740	-	6.740	6.870	-	6.870
Infrastructure	12.156	(6.082)	6.074	12.400	(6.082)	6.318	12.620	(6.082)	6.538
Insurance	3.142	-	3.142	3.279	-	3.279	3.078	-	3.078
Property	4.189	(3.304)	0.885	4.189	(3.304)	0.885	4.460	(3.304)	1.156
Other	0.743	(0.082)	0.661	0.104	(0.104)	-	-	-	-
<b>Total</b>	<b>27.147</b>	<b>(9.468)</b>	<b>17.679</b>	<b>26.712</b>	<b>(9.490)</b>	<b>17.222</b>	<b>27.028</b>	<b>(9.386)</b>	<b>17.642</b>

## Investment in [Molopo Energy Limited](#) (ASX:[MPO](#))

As at 31 December 2016 and currently, Keybridge is the second largest shareholder in Molopo with 47,700,306 shares ([19.15%](#)) (30 June 2016: 46,017,543 shares and [18.48%](#)), which were acquired at an average cost of \$0.15 per share.

Since 1 July 2016, MPO shares have traded on ASX within a range of \$0.12 to \$0.17 with a closing price of \$0.135 (and \$33.62 million market capitalisation) as at 31 December 2016 and a current closing price of \$0.165 (as at 27 February 2017).

The Molopo investment generated a \$1.185 million unrealised gain for the half year.

Molopo has significant cash reserves ([\\$67.4 million](#) as at 31 December 2016) having disposed of a number of oil and gas exploration/development/production assets in the United States (Texas), Canada (Saskatchewan) and South Africa a number of years ago. Molopo has advised that it is reviewing investment opportunities in the oil and gas sectors and managing a series of legal actions in Canada relating to the sale of Molopo's interests in various oil and gas assets in 2011.

MPO has a ~A\$0.237 cash backing per share (net of a C\$8.4 million (A\$8.4 million) provision for legal claims) as at 31 December 2016.<sup>8</sup>

Former Keybridge Director, Antony Sormann, was appointed to the Molopo Board on [29 December 2014](#) (as a Keybridge nominee) but resigned on [1 December 2016](#) shortly after his resignation from Keybridge (on 13 October 2016).

Information concerning Molopo may be viewed on its website: [www.molopoenergy.com](http://www.molopoenergy.com).

Molopo's market announcements may also be viewed from the ASX website ([www.asx.com.au](http://www.asx.com.au)) under ASX code "[MPO](#)".

<sup>8</sup> Refer MPO's [December 2016 Quarterly Report](#) dated and lodged on ASX on 30 January 2017 and [June 2016 Half Year Report](#) lodged on ASX on 9 September 2016; based on the following exchange rate: A\$1.00 = C\$1.00

# DIRECTORS' REPORT

## Investment in [PTB Group Limited \(ASX:PTB\)](#)

As at 31 December 2016 and currently, Keybridge is the third largest shareholder in PTB with 6,976,348 shares ([13.20%](#)) (30 June 2016: 9,502,664 shares (~19.84%) and second largest shareholder), which were acquired at an average cost of \$0.236 per share.

During the half year, Keybridge sold 2,526,316 PTB shares realising a gain on sale of \$0.139 million for the half year (\$0.792 million gain from cost).

The balance of the PTB investment generated a \$0.907 million unrealised gain for the half year.

Since 1 July 2016, PTB shares have traded on ASX within a range of \$0.395 to \$0.57 with a closing price of \$0.55 (and \$29.59 million market capitalisation) as at 31 December 2016 and a current closing price of \$0.535 (as at 27 February 2017).

PTB is a Brisbane-based global aviation parts and services supply organisation with operations in turbine engine repair and overhaul, trading in aircraft airframes, turbine engines and related parts, financing (to customers) and the lease, rental or hire of aircraft and turbine engines to customers.

Former Keybridge Director, Antony Sormann, was appointed to the PTB Board on [2 December 2015](#) (as a Keybridge nominee) and resigned on [13 October 2016](#) upon his resignation from Keybridge.

Information concerning PTB may be viewed on its website: [www.pacificturbine.com.au](http://www.pacificturbine.com.au)

PTB's market announcements may also be viewed from the ASX website ([www.asx.com.au](http://www.asx.com.au)) under ASX code "[PTB](#)".

## Investment in [HHY Fund \(ASX:HHY\)](#)

As at 31 December 2016, Keybridge is the largest shareholder in HHY at 25.49% interest with 22,646,973 units ([26.46%](#)) (22,646,973 units) as at 25 January 2017<sup>9</sup> upon completion of HHY's on-market share buy-back exercise<sup>10</sup>) (30 June 2016: 20,646,973 units (~21.62%) and largest shareholder)), which were acquired at an average cost of \$0.11 per unit.

HHY is regarded as an Associated Entity (i.e. an entity in which the Company has a greater than 20% interest and is considered to have 'significant influence' over) and is accounted for under the equity method in the Keybridge consolidated financial statements. Under the equity method, the carrying amount of such investment is cost plus a share of the Associate Entity's net profit or loss (after tax) as provided to the Company by such Associated Entity (refer Note 3a(iv) (Significant Accounting Policies - Basis of Consolidation - Investments in equity-accounted investees) at page 37 of the Company's [2016 Annual Report](#)).

As at 31 December 2016, Keybridge's investment in HHY has a carrying value of \$0.1263 per unit (\$2.86 million); this compares with HHY's last bid price on ASX of \$0.12 per unit (\$2.718 million) and HHY's after-tax net tangible asset (NTA) backing of \$0.1226 per unit (\$2.777 million) as at the same date.

Since 1 July 2016, HHY units have traded on ASX within a range of \$0.105 to \$0.125 with a closing price of \$0.12 (and \$9.314 million market capitalisation) as at 31 December 2016 and a current closing price of \$0.105 (as at 27 February 2017).

As at 31 January 2017, Keybridge's investment in HHY has a carrying value of \$0.1248 per unit (\$2.826 million); this compares with HHY's last bid price on ASX of \$0.105 per unit (\$2.378 million) and HHY's after-tax NTA backing of [\\$0.1213](#) per unit (\$2.747 million) as at the same date.

[Aurora Funds Management Limited \(AFML\)](#) is the Responsible Entity of HHY and Keybridge was appointed [Investment Manager](#) of HHY on 30 June 2016.

<sup>9</sup> Refer KBC's [Change of Substantial Holder Notice](#) in HHY dated 25 January 2017

<sup>10</sup> Refer HHY's [Final Share Buy-Back Notice – Appendix 3F](#) dated 20 January 2017

# DIRECTORS' REPORT

HHY is currently predominately invested in listed equities but its investment strategy includes investments in listed and unlisted Australian and international equities, options, convertible securities and other derivative securities.

AFML (as Responsible Entity of the [Aurora Global Income Trust](#) (ASX:AIB)) launched a scrip takeover bid for HHY on [29 September 2016](#), which bid formally opened on 28 November 2016 and is currently scheduled to close on [31 March 2017](#). Further details about the bid are contained in:

- AIB's [Bidder's Statement](#), which was released on ASX on 18 November 2016;
- HHY's [Target Statement](#), which was released on ASX on 13 December 2016;
- AIB's [First Supplementary Bidder's Statement](#), which was released on ASX on 19 January 2017; and
- AIB's ASX Announcement dated 20 February 2017: [Off-Market Takeover Bid for All Units in the HHY Fund – Notice of Extension of Offer Period](#).

Based on AIB's latest substantial holder notice lodged on ASX, AIB has received acceptances under the bid totally 6,585,072 units (representing an interest of 7.25%) (as at [23 February 2017](#)).

Information concerning HHY may be viewed on its website: [http://www.aurorafunds.com.au/investment-funds/hastings\\_high\\_yield\\_fund/](http://www.aurorafunds.com.au/investment-funds/hastings_high_yield_fund/)

HHY's market announcements may also be viewed from the ASX website ([www.asx.com.au](http://www.asx.com.au)) under ASX code "[HHY](#)".

## Investment in [Metgasco Limited](#) (ASX:[MEL](#))

As at 31 December 2016 and currently, Keybridge is the second largest shareholder in Metgasco with 23,194,591 shares (5.82%) (30 June 2016: 22,382,523 shares and 5.58%), which were acquired at an average cost of 3.23 cents per share (adjusted for the 2.5 cents per share (\$0.58 million) return of capital received on [16 November 2016](#)).

Keybridge notes that HHY is also a major shareholder in Metgasco with 19,085,580 shares (4.79%) as at 31 December 2016 (30 June 2016: 18,273,521 shares and 4.56%).

Since 1 July 2016, MEL shares have traded on ASX within a range of 4 to 7 cents (adjusted for the 2.5 cents return of capital) with a closing price of 4.5 cents (and \$18.05 million market capitalisation) as at 31 December 2016 and a current closing price of 4.2 cents (as at 27 February 2017).

The Metgasco investment generated a \$0.364 million unrealised gain for the half year.

Metgasco has significant cash reserves ([\\$18.134 million](#) representing a cash backing of 4.55 cents per share as at 31 December 2016) and a [\\$8 million convertible note](#) issued to [Byron Energy Limited](#) (ASX:[BYE](#)) [secured](#) over [Byron's assets](#) (principally located in the Gulf of Mexico). Metgasco is reviewing opportunities in the oil and gas sector and has a farm-in (10% working) interest in Byron's [Bivouac Peak Littoral Louisiana Oil & Gas Project](#) and was recently successful in securing exclusive petroleum and gas [exploration rights](#) in the Cooper and Eromanga basins in Queensland.<sup>11</sup>

Keybridge's Chairman, John Patton, was appointed to the Metgasco Board on [19 September 2016](#).

Information concerning Metgasco may be viewed on its website: [www.metgasco.com.au](http://www.metgasco.com.au).

Metgasco's market announcements may also be viewed from the ASX website ([www.asx.com.au](http://www.asx.com.au)) under ASX code "[MEL](#)".

<sup>11</sup> Refer MEL's [December 2016 Quarterly Activities Report](#) dated and lodged on ASX on 31 January 2017 and [2016 Annual Report](#) lodged on ASX on 26 October 2016

# DIRECTORS' REPORT

## Loan Receivables – Infrastructure

In 2007/2008, Keybridge financed the development and construction of the Totana 1.05MWp Solar Photovoltaic Park in the Murcia region in southern Spain (at a cost of €9.6 million).

Under Spanish [Royal Decree](#), Spanish energy supplier, [Iberdrola](#), (which has a 25 year (plus two 5 year extensions) purchase off-take arrangement) is required to purchase all electricity produced by Totana at Government mandated feed-in tariff prices plus (since [July 2013 under Royal Decree](#)) additional compensation payments (which are intended to provide a reasonable return on operations and capital invested for renewable energy sources and is subject to review every 3 years).



The Totana loan (which currently accrues interest at 7.25% pa) is repayable on maturity on or about December 2038. During the half year, Keybridge received €0.215 million (A\$0.319 million) in cash loan repayments.

As at 31 December 2016, the Totana loan was carried at Directors' valuation (net of impairments) of €4.17 million (A\$6.074 million) (30 June 2016: €4.23 million (A\$6.318 million)) against the accrued gross value of €8.25 million (A\$12.156 million) (30 June 2016: €8.31 million (A\$12.400 million)).

## Loan Receivables - Private Equity

In [April 2013](#), as part of the arrangements to exit legacy aviation investments, Keybridge restructured its participation in a US closed-end private equity fund which was managed by the same party as the aviation investment ([Republic Financial Corporation \(RPC\)](#), a US private investment company).

As a result of the restructure, Keybridge holds a US\$4.3 million limited recourse promissory note issued by RPE I Investor LLC (**RPE Investor**) (a subsidiary of RPC) secured (via collateral pledged) over RPE Investor's 53.5% interest in the Republic Private Equity I Limited Liability Limited Partnership, a private equity fund (managed by a related party to RPC) with investments in two active US-based manufacturing/distribution businesses (**RPE Fund**).

The principal and accrued interest (at 14.5% pa) under the note is repayable on maturity on 29 December 2017 (which is subject to extension/re-finance by mutual agreement of the parties).

As at 31 December 2016, the loan was carried at Directors' valuation (net of impairments) of US\$5.01 million (A\$6.917 million) (30 June 2016: US\$5.01 million (A\$6.74 million)) – this compares with the US\$5.99 million value of the security interest being 53.5% of RPE Fund's (unaudited) net assets of US\$11.19 million (based on the fund's latest available 31 December 2016 Quarterly Report) (30 June 2016: US\$32.09 million security value based on 53.5% of the RPE Fund's (unaudited) net assets of US\$59.98 million (based on the fund's then latest available 31 March 2016 Quarterly Report)). The value of the security interest represents a security: loan coverage ratio of 120%.

The significant decline in the RPE Fund's value (between the March 2016 and December 2016 quarterly reports referred to above) was attributable to the full impairment of the investment and loan receivable in respect of a manufacturing/metal recycling business which ceased operations in September 2016. The RPE Fund is unlikely to extract any material equity value from this investment due to the size of the business' debt (which ranks senior to the fund's loan) vis a vis the estimated realisable enterprise value of the remaining assets.

# DIRECTORS' REPORT

## Loan Receivables and Equity – Insurance

In [September 2014](#), Keybridge invested NZ\$3.8 million (A\$3.4 million) (via NZ\$0.109 million (10.13%) equity and NZ\$3.691 million notes) into [Foundation Life](#) to finance Foundation's acquisition of Tower Limited's life insurance business in New Zealand.

Interest of 9% pa is payable under the note, which is redeemable by noteholders in 10 years (May 2024) or by Foundation (from time to time).

Keybridge received a NZ\$0.109 million equity (A\$0.105 million) return of capital distribution in March 2015, which (for accounting purposes) reduced the carrying value of this 10.13% equity component to nil.

During the half year, Keybridge received NZ\$0.289 million (A\$0.275 million) interest income and NZ\$24k (A\$23k) redemption proceeds from Foundation.

As at 31 December 2016, the loan balance is NZ\$3.266 million (A\$3.142 million) (30 June 2016: NZ\$3.426 million and A\$3.279 million) and Keybridge retains its 10.13% equity interest in Foundation Life.

## Loan Receivables – Property

In September 2014, Keybridge took direct control of loans that were held in a fund (where Keybridge was the remaining sole lender) which invested in first ranking mortgage loans over commercial properties. One property was sold and the loan (\$1.2 million) repaid in October 2015.

Keybridge has registered mortgages over strata title lots comprising Conference Facilities at a Hotel located in a beachside suburb in north Sydney as security for the remaining loans, which are owed by private companies (which are in liquidation).



As at 31 December 2016, the loan was carried at Directors' valuation (net of impairments) of \$0.885 million (30 June 2016: \$0.885 million) – this was based on an independent valuation received in respect of the lots in May 2016.

# DIRECTORS' REPORT

## Board Changes

At a general meeting held on 29 July 2016, shareholders approved<sup>12</sup>:

- the appointment of William Johnson and Simon Cato as Directors; and
- the removal of Andrew Moffat (who was then Chairman) (appointed Director on [7 March 2014](#)) as a Director.

On 10 August 2016:

- William (Bill) Brown (who was then Chairman) (appointed Director [9 October 2012](#)) resigned as a Director<sup>13</sup>; and
- John Patton was appointed a Director.<sup>14</sup>

On 13 October 2016<sup>15</sup>:

- John Patton was appointed Chairman;
- Jeremy Kriewaldt was appointed a Director; and
- Executive Director, Antony Sormann (appointed [6 March 2014](#)), resigned as a Director.

## Corporate Changes

On 13 October 2016<sup>11</sup>:

- John Patton was appointed a Company Executive on material terms outlined in the Company's ASX announcement dated [13 October 2016: Board and Corporate Changes](#); and
- Victor Ho was appointed Co-Company Secretary.

On 16 December 2016<sup>16</sup>:

- Ian Pamensky (appointed [29 February 2016](#)) resigned as Company Secretary;
- The Company and its Australian subsidiaries changed their Registered Office and Principal Place of Business address to Melbourne.

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12 Refer KBC's [Notice of General Meeting](#) dated 7 June 2016 and ASX announcement dated [29 July 2016: Results of General Meeting and Board Changed](#)

13 Refer KBC's ASX announcement dated [10 August 2016: Resignation of Director](#)

14 Refer KBC's ASX announcement dated [10 August 2016: Board Changes](#)

15 Refer KBC's ASX announcement dated [13 October 2016: Board and Corporate Changes](#)

16 Refer KBC's ASX announcement dated [16 December 2016: Corporate Changes](#)



# DIRECTORS' REPORT

## DIRECTORS

<b>JOHN D. PATTON</b>	<b>Chairman</b>
<i>Appointed</i>	<a href="#">10 August 2016</a>
<i>Qualifications</i>	B.Ec (Monash), CA (ICAA), F Fin
<i>Experience</i>	<p>John Patton is a senior executive with extensive finance experience in the corporate and professional services sectors. Mr Patton was previously a Partner with Ernst &amp; Young in the Transactions Advisory Services division. With over 25 years of professional services and industry experience, Mr Patton has extensive corporate finance credentials, having been involved in over 150 corporate transactions, including mergers &amp; acquisitions (lead advisory), structuring, debt and equity raisings, IPO's, management buy-outs, valuations (including Independent Expert Reports), due diligence, financial modelling, restructuring and corporate advisory.</p> <p>In addition, Mr Patton held the positions of CFO, acting CEO and alternate director of the Epic Energy group, a major infrastructure owner of high-pressure gas transmission pipelines in Australia. This business was the core asset within the ASX listed Hastings Diversified Utilities Fund. As a result, Mr Patton has solid hands-on operational experience with, and a strong appreciation of, the regulatory, commercial, financial, capital structure and external stakeholder management issues and requirements associated with major assets within an ASX listed environment in Australia.</p>
<i>Relevant interest in securities</i>	150,000 – KBC shares <sup>17</sup> 4,166 – KBCPA Convertible Redeemable Preference Notes
<i>Special Responsibilities</i>	Member of Investment Committee Member of Audit, Finance and Risk Committee
<i>Other current directorships in listed entities</i>	Non-Executive Director of <a href="#">Metgasco</a> Limited (ASX: <a href="#">MEL</a> ) (appointed 19 September 2016)
<i>Former directorships in other listed entities in past 3 years</i>	None
<hr/>	
<b>WILLIAM M. JOHNSON</b>	<b>Non-Executive Director</b>
<i>Appointed</i>	<a href="#">29 July 2016</a> (elected by shareholders at a <a href="#">general meeting</a> )
<i>Qualifications</i>	MA (Oxon), MBA, MAICD
<i>Experience</i>	<p>Mr. Johnson holds a Masters degree in engineering science from Oxford University, England and an MBA from Victoria University, New Zealand. His 30 year business career spans multiple industries and countries, with executive/CEO experience in oil and gas exploration (North Africa and Australia), mineral exploration and investment (Australia, Peru, Chile, Saudi Arabia, Oman and Indonesia), telecommunications infrastructure investment (New Zealand, India, Thailand and Malaysia) and information technology and Internet ventures (New Zealand, Philippines and Australia). Mr Johnson is a highly experienced public company director and has considerable depth of experience in business strategy, investment analysis, finance and execution.</p>
<i>Relevant interest in securities</i>	None
<i>Special Responsibilities</i>	Member of Investment Committee Member of Remuneration and Nomination Committee
<i>Other current directorships in listed entities</i>	<p>(1) Managing Director of <a href="#">Strike Resources</a> Limited (ASX:<a href="#">SRK</a>) (since 25 March 2013; Director since 14 July 2006).</p> <p>(2) Executive Director of <a href="#">Bentley Capital</a> Limited (ASX:<a href="#">BEL</a>) (since 1 January 2016; Director since 13 March 2009)</p>
<i>Former directorships in other listed entities in past 3 years</i>	None

<sup>17</sup> Refer John Patton's [Initial Director's Interest Notice dated 10 August 2016](#)

# DIRECTORS' REPORT

<b>SIMON K. CATO</b>	<b>Non-Executive Director</b>
<i>Appointed</i>	<a href="#">29 July 2016</a> (elected by shareholders at a <a href="#">general meeting</a> )
<i>Qualifications</i>	B.A. (Sydney)
<i>Experience</i>	Simon Cato has had over 30 years capital markets experience in broking, regulatory roles and as a director of listed companies. He was initially employed by the ASX in Sydney and then in Perth. From 1991 until 2006 he was an executive director and/or responsible executive of three stockbroking firms and in those roles he has been involved in many aspects of broking including management issues such as credit control and reporting to regulatory bodies in the securities industry. As a broker he was also involved in the underwriting of a number of IPO's and has been through the process of IPO listing in the dual role of broker and director. Currently he holds a number of non-executive roles with other listed companies in Australia.
<i>Relevant interest in securities</i>	None
<i>Special Responsibilities</i>	Chairman of Audit, Finance and Risk Committee Member of Remuneration and Nomination Committee
<i>Other current directorships in listed entities</i>	(1) Non-Executive Chairman of <a href="#">Advanced Share Registry</a> Limited (ASX: <a href="#">ASW</a> ) (since 22 August 2007). (2) Non-Executive Director of <a href="#">Greenland Minerals and Energy</a> Limited (ASX: <a href="#">GGG</a> ) (since 21 February 2006). (3) Non-Executive Director of <a href="#">Bentley Capital</a> Limited (ASX: <a href="#">BEL</a> ) (since 7 January 2015; also February 2004 to April 2010).
<i>Former directorships in other listed entities in past 3 years</i>	None

<b>JEREMY M. KRIEWALDT</b>	<b>Non-Executive Director</b>
<i>Appointed</i>	<a href="#">13 October 2016</a>
<i>Qualifications</i>	BA (Hons), LLM (Hons) (Sydney)
<i>Experience</i>	Jeremy Kriewaldt is a Partner at boutique corporate, finance and taxation firm <a href="#">Atanaskovic Hartnell</a> . Mr Kriewaldt specialises in corporate and commercial law, including mergers and acquisitions, capital raisings and foreign investment, financial product development and securities markets. Mr Kriewaldt was previously a partner of Blake Dawson Waldron (now Ashurst) (1990 – 2003) and served as Counsel of the Takeovers Panel in 2003 - 2004. Further details concerning Mr Kriewaldt's experience are also available on the Atanaskovic Hartnell website: <a href="http://www.ah.com.au/default.aspx?page=18">http://www.ah.com.au/default.aspx?page=18</a>
<i>Relevant interest in securities</i>	5,000 – KBC shares <sup>18</sup> 1,138 – KBCPA Convertible Redeemable Preference Notes
<i>Special Responsibilities</i>	Chairman of Remuneration and Nomination Committee Member of Audit, Finance and Risk Committee
<i>Other current directorships in listed entities</i>	None
<i>Former directorships in other listed entities in past 3 years</i>	None

<sup>18</sup> Refer Jeremy Kriewaldt's [Initial Director's Interest Notice dated 13 October 2016](#)



# DIRECTORS' REPORT

## COMPANY SECRETARY

VICTOR P. H. HO	Company Secretary
<i>Appointed</i>	<a href="#">13 October 2016</a>
<i>Qualifications</i>	BCom, LLB ( <i>Western Australia</i> ), CTA
<i>Experience</i>	Victor Ho has been in Executive roles with a number of ASX listed companies across the investments, resources and technology sectors over the past 17+ years. Mr Ho is a Chartered Tax Adviser (CTA) and previously had 9 years' experience in the taxation profession with the Australian Tax Office (ATO) and in a specialist tax law firm. Mr Ho has been actively involved in the structuring and execution of a number of corporate, M&A and international joint venture (in South America, Indonesia and the Middle East) transactions, capital raisings and capital management initiatives and has extensive experience in public company administration, corporations' law and stock exchange compliance and investor/shareholder relations.
<i>Relevant interest in securities</i>	None
<i>Other current positions in listed entities</i>	Executive Director and Company Secretary of: <ol style="list-style-type: none"> <li>(1) Orion Equities Limited (ASX:<a href="#">OEQ</a>) (Secretary since 2 August 2000 and Director since 4 July 2003).</li> <li>(2) Queste Communications Ltd (ASX:<a href="#">QUE</a>) (Secretary since 30 August 2000 and Director since 3 April 2013).</li> <li>(3) <a href="#">Strike Resources</a> Limited (ASX:<a href="#">SRK</a>) (Director since 24 January 2014 and Company Secretary since 1 October 2015).</li> </ol> Company Secretary of <a href="#">Bentley Capital</a> Limited (ASX: <a href="#">BEL</a> ) (since 5 February 2004).
<i>Former position in other listed entities in past 3 years</i>	Company Secretary of <a href="#">Alara Resources</a> Limited (ASX: <a href="#">AUQ</a> ) (4 April 2007 to 31 August 2015).

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under [section 307C](#) of the *Corporations Act 2001* forms part of this Directors Report and is set out on page 17. This relates to the Auditor's Independent Review Report, where the Auditors state that they have issued an independence declaration.

Signed for and on behalf of the Directors in accordance with a resolution of the Board,



John Patton  
Chairman



Simon Cato  
Non-Executive Director and  
Chairman of Audit, Finance and Risk Committee

28 February 2017

The Board of Directors  
Keybridge Capital Limited  
Suite 613, 370 St Kilda Road  
Melbourne, VIC, 3004

28 February 2017

Dear Sirs,

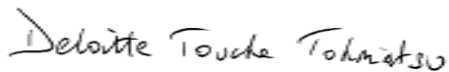
**Keybridge Capital Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Keybridge Capital Limited.

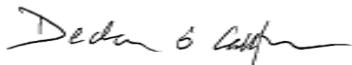
As lead audit partner for the review of the financial statements of Keybridge Capital Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Declan O'Callaghan  
Partner  
Chartered Accountants

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## for the half year ended 31 December 2016

	Note	31 Dec 16	31 Dec 15
<b>Revenue and Income</b>	<b>2</b>	<b>\$'000</b>	<b>\$'000</b>
Fees		149	80
Net unrealised gain on financial assets at fair value through profit or loss		824	1,209
Net gain on revaluation of foreign currency assets		-	333
Net unrealised gain on derivative liabilities		-	88
Net gain on sale of investments		1,314	50
Share of Associate entity's profit		-	118
Interest revenue		383	590
Other income		113	3,139
<b>Total Revenue and Income</b>		<b>2,783</b>	<b>5,607</b>
<b>Expenses</b>	<b>3</b>		
Share of Associate entity's loss		(43)	-
Net loss on revaluation of foreign currency assets		(99)	-
Net unrealised loss on derivative liabilities		(57)	-
Impairment expenses		22	(1,884)
Personnel expenses		(339)	(919)
Corporate expenses		(972)	(658)
Administration expenses		(124)	(250)
Other expenses		(77)	(162)
<b>Results from operating activities</b>		<b>1,094</b>	<b>1,734</b>
Finance expenses		(154)	(156)
<b>Profit before Income Tax</b>		<b>940</b>	<b>1,578</b>
Income tax benefit/(expense)		-	1,139
<b>Profit from continuing operations</b>		<b>940</b>	<b>2,717</b>
Loss from discontinued operations	<b>4</b>	-	(966)
<b>Profit after income tax for the half year</b>		<b>940</b>	<b>1,751</b>
<b>Other Comprehensive Income</b>			
Other Comprehensive Income, net of tax		-	-
<b>Total Comprehensive Profit for the half year</b>		<b>940</b>	<b>1,751</b>
<b>Total Comprehensive Income for the half year is attributable to:</b>			
Continuing operations		940	2,869
Discontinued operations		-	(966)
<b>Owners of Keybridge Capital Limited</b>		<b>940</b>	<b>1,903</b>
<b>Non-controlling interest - Discontinued operations</b>		<b>-</b>	<b>(152)</b>
		<b>940</b>	<b>1,751</b>
Basic and diluted earnings per share (cents) from continuing operations		0.59	1.80
Basic and diluted loss per share (cents) from discontinued operations		-	(0.60)
<b>Basic and diluted earnings per share (cents) attributable to the ordinary equity holders of the Company</b>	<b>6</b>	<b>0.59</b>	<b>1.20</b>

The accompanying notes form part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## as at 31 December 2016

	Note	31 Dec 16 \$'000	30 Jun 16 \$'000
<b>Current Assets</b>			
Cash and cash equivalents		2,060	1,665
Financial assets at fair value through profit or loss	7	12,897	13,095
Trade and other receivables		319	350
Other assets		192	-
<b>Total Current Assets</b>		<b>15,468</b>	<b>15,110</b>
<b>Non-Current Assets</b>			
Loans and receivables	8	17,679	17,222
Investment in Associate entity	11	2,859	2,662
Property, plant and equipment		7	14
Deferred tax asset		-	-
<b>Total Non-Current Assets</b>		<b>20,545</b>	<b>19,898</b>
<b>Total Assets</b>		<b>36,013</b>	<b>35,008</b>
<b>Current Liabilities</b>			
Payables		770	1,050
Financial liabilities at fair value through profit or loss	7	-	17
<b>Total Current Liabilities</b>		<b>770</b>	<b>1,067</b>
<b>Non-Current Liabilities</b>			
Financial liabilities at fair value through profit or loss	7	4,260	4,203
Deferred tax liability		-	-
<b>Total Non-Current Liabilities</b>		<b>4,260</b>	<b>4,203</b>
<b>Total Liabilities</b>		<b>5,030</b>	<b>5,270</b>
<b>Net Assets</b>		<b>30,983</b>	<b>29,738</b>
<b>Equity</b>			
Issued capital		253,717	253,717
Reserves		3,058	1,813
Accumulated losses		(225,792)	(225,792)
<b>Total Equity</b>		<b>30,983</b>	<b>29,738</b>

The accompanying notes form part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## for the half year ended 31 December 2016

	Reserves						Total	Non-controlling interests	Total equity
	Issued capital	Treasury share	Share-based payments	Foreign exchange translation reserve	Profits reserve	Accumulated losses			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance At 1 Jul 2015</b>	<b>253,315</b>	-	<b>37</b>	-	<b>534</b>	<b>(221,528)</b>	<b>32,358</b>	-	<b>32,358</b>
Restatements	494	-	227	-	37	(249)	509	-	509
	<b>253,809</b>	-	<b>264</b>	-	<b>571</b>	<b>(221,777)</b>	<b>32,867</b>	-	<b>32,867</b>
Profit for the half year	-	-	-	-	-	1,751	1,751	152	1,903
Profits reserve transfer	-	-	-	-	1,750	(1,750)	-	-	-
<b>Total comprehensive income for the half year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,750</b>	<b>1</b>	<b>1,751</b>	<b>152</b>	<b>1,903</b>
<b>Transactions with owners in their capacity as owners:</b>									
Share buy-back	(92)	-	-	-	-	-	(92)	-	(92)
Dividends paid	-	-	-	-	(398)	-	(398)	-	(398)
Transfer to treasury share reserve	1,124	(1,124)	-	-	-	-	-	-	-
Transfer to share based payment reserve	-	-	205	-	-	-	205	-	205
Consolidation of Ledcom	-	-	-	19	-	-	19	-	19
<b>Balance At 31 Dec 2015</b>	<b>254,841</b>	<b>(1,124)</b>	<b>469</b>	<b>19</b>	<b>1,923</b>	<b>(221,776)</b>	<b>34,352</b>	<b>152</b>	<b>34,504</b>
<b>Balance At 1 Jul 2016</b>	<b>253,717</b>	-	<b>287</b>	-	<b>1,526</b>	<b>(225,792)</b>	<b>29,738</b>	-	<b>29,738</b>
Profit for the half year	-	-	-	-	-	940	940	-	940
Profits reserve transfer	-	-	-	-	940	(940)	-	-	-
<b>Total comprehensive income for the half year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>940</b>	<b>-</b>	<b>940</b>	<b>-</b>	<b>940</b>
<b>Transactions with owners in their capacity as owners:</b>									
Transfer to share based payment reserve	-	-	305	-	-	-	305	-	305
<b>Balance At 31 Dec 2016</b>	<b>253,717</b>	-	<b>592</b>	-	<b>2,466</b>	<b>(225,792)</b>	<b>30,983</b>	-	<b>30,983</b>

The accompanying notes form part of these consolidated financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

## for the half year ended 31 December 2016

	Note	31 Dec 16 \$'000	31 Dec 15 \$'000
<b>Cash Flows from Operating Activities</b>			
Fees received		19	474
Interest received		284	605
Other income received		798	2,856
Payments to suppliers and employees		(2,262)	(2,264)
Interest payment		(154)	(188)
Proceeds from sale of financial assets at fair value through profit or loss		5,463	10,975
Purchase of financial assets at fair value through profit or loss		(3,724)	(10,381)
		<u>424</u>	<u>2,077</u>
<b>Net Cash used in Discontinued Operations</b>		-	(1,064)
		<u><b>424</b></u>	<u><b>1,013</b></u>
<b>Cash Flows from Investing Activities</b>			
Dividends received		1	62
Payments for purchase of loans and receivables		-	(567)
Proceeds from sale/repayment of loans and receivables		362	2,051
Investment in Associate entity		(240)	-
Proceeds from disposal of plant and equipment		2	-
		<u>125</u>	<u>1,546</u>
<b>Net Cash provided by Investing Activities</b>		<u><b>125</b></u>	<u><b>1,546</b></u>
<b>Cash Flows from Financing Activities</b>			
Share buy-back		-	(92)
Convertible redeemable promissory note buy-back		-	(25)
Dividends paid		-	(398)
Repayment of loans and borrowings		-	(1,020)
		<u>-</u>	<u>(1,535)</u>
<b>Net Cash used in Financing Activities</b>		<u><b>-</b></u>	<u><b>(1,535)</b></u>
<b>Net change in cash held</b>		549	1,024
Cash and cash equivalents at beginning of financial year		1,665	2,833
Effect of exchange rate fluctuations on cash held		(154)	5
<b>Cash and Cash Equivalents at the end of half year period</b>		<u><b>2,060</b></u>	<u><b>3,862</b></u>

The accompanying notes form part of these consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the half year ended 31 December 2016

### 1. BASIS OF PREPARATION

Keybridge Capital Limited (ASX:KBC) (**KBC** or **Company**) is a company incorporated and domiciled in Australia and listed on the Australian Securities Exchange (**ASX**). The Consolidated Financial Statements as at and for the financial half year ended 31 December 2016 comprise the Company and its subsidiaries (**Keybridge** or **Consolidated Entity** or **Group**) and its interest in Associate entities. Keybridge is a 'for-profit' investment and financial services group with a diversified portfolio of listed and unlisted investments/loan assets.

The financial statements are presented in Australian dollars, which is the Consolidated Entity's functional and presentation currency.

The accounting policies and methods of computation adopted in the preparation of the half year financial statements are consistent with those adopted and disclosed in the Company's financial statements for the financial year ended 30 June 2016. The Keybridge 2016 Annual Report is available upon request and may be downloaded from the Company's website: [www.keybridge.com.au](http://www.keybridge.com.au) or the ASX website ([www.asx.com.au](http://www.asx.com.au)).

#### **Statement of Compliance**

The half year financial statements are a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These half year financial statements do not include notes of the type normally included in the annual financial statements and should be read in conjunction with the most recent annual financial statements and the Company's ASX announcements released from 1 July 2016 to the date of this report.

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (dated 24 March 2016), all financial information presented in Australian dollars have been rounded to the nearest thousand unless otherwise stated.

#### **Uses of estimates and judgements**

In preparing these half year financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Consolidated Entity's accounting policies and key sources of estimation uncertainty were the same as those applied to the Consolidated Financial Statements as at and for the year ended 30 June 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the half year ended 31 December 2016

### 2. REVENUE AND INCOME

	31 Dec 16	31 Dec 15
	\$'000	\$'000
The consolidated profit before income tax includes the following items of revenue:		
Fees		
Investment management fees	128	-
Outside Directors' fees	21	60
Loan establishment fees	-	20
Net unrealised gain on financial assets at fair value through profit or loss	824	1,209
Net gain on revaluation of foreign currency assets	-	333
Net unrealised gain on derivative liabilities (CRPNs)	-	88
Net gain on sale of investments	1,314	50
Share of Associate entity's profit	-	118
Interest revenue	383	590
Other income	-	
Litigation settlement	80	3,020
Unit trust distributions	22	31
Disposal of subsidiary	9	-
Other income	2	88
	<b>2,783</b>	<b>5,607</b>

### 3. EXPENSES

	31 Dec 16	31 Dec 15
	\$'000	\$'000
The consolidated profit before income tax includes the following items of expenses:		
Share of Associate entity's loss	43	-
Net loss on revaluation of foreign currency assets	99	-
Net unrealised loss on derivative liabilities (CRPNs)	57	-
Impairment expenses/(reversal)	(22)	1,884
Personnel expenses		
Directors' fees	85	101
Salaries and wages	318	605
Executive Share Plan	(64)	114
Other	-	99
Corporate expenses		
Auditing, accounting and tax services	312	91
Professional and consulting fees	281	90
Legal fees	379	106
Other	-	371
Administration expenses	124	250
Other expenses	77	162
	<b>1,689</b>	<b>3,873</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the half year ended 31 December 2016

### 4. DISCONTINUED OPERATIONS

			31 Dec 16	31 Dec 15
			\$'000	\$'000
The following table summarises the losses from discontinued operations:	<b>Interest Held</b>	<b>Cessation Date</b>		
Keybridge Funds Management Pty Limited ( <b>KFM</b> )	100%	15-Nov-16	-	-
Ledcom International S.r.l ( <b>Ledcom</b> )	70%	1-Jun-16	-	(505)
Aurora Funds Management Limited ( <b>AFML</b> )	100%	30-Jun-16	-	(461)
			-	<b>(966)</b>

	<b>KFM</b>	<b>AFML</b>	<b>Ledcom</b>
	31 Dec 15	31 Dec 15	31 Dec 15
	\$'000	\$'000	\$'000
The operating loss from these discontinued operations are:			
Revenue	-	1,078	11
Expenses	-	(1,539)	(516)
<b>Loss before income tax</b>	-	<b>(461)</b>	<b>(505)</b>
Income tax expense	-	-	-
<b>Loss for the half year</b>	-	<b>(461)</b>	<b>(505)</b>
Non-controlling interest	-	-	152
<b>Loss for the half year attributable to discontinued operations</b>	-	<b>(461)</b>	<b>(353)</b>

The carrying amount of the assets in these discontinued operations are summarised as follows:

Assets	-	1,283	255
Liabilities	-	(1,103)	(64)
<b>Net Assets</b>	-	<b>180</b>	<b>191</b>

The Cash Flows generated from these discontinued operations are as follows:

#### Operating activities

	<b>KFM</b>	<b>AFML</b>	<b>Ledcom</b>
	31 Dec 15	31 Dec 15	31 Dec 15
	\$'000	\$'000	\$'000
Receipts from customers	-	1,078	-
Payments to suppliers and employees	-	(1,624)	(518)
<b>Net cash used in discontinued operations</b>	-	<b>(546)</b>	<b>(518)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the half year ended 31 December 2016

### 5. SEGMENT INFORMATION

The Consolidated Entity has two strategic business segments, as described below:

- (a) Equity Investments comprise investments in listed and unlisted equities with exposure to various sectors from time to time;
- (b) Debt investments comprise loans advanced, debts secured via assignment and investments in debt instruments with exposure to a number of different sectors, as follows:
- Infrastructure: Loans advanced to finance the development and construction of a Solar Park in Spain.
  - Private Equity: Promissory note issued by a US private investment company secured (via collateral pledged) over its interest in a private equity fund which has investments in two US based manufacturing/distribution businesses.
  - Insurance: Notes issued by the owner of a life insurance business in New Zealand.
  - Property: Creditor of private companies (both in liquidation) with security held via registered mortgages over strata title lots comprising Conference Facilities at a Hotel located in a beachside suburb in north Sydney.

The Consolidated Entity has an additional Corporate segment, which relates to corporate assets and operations.

As at 30 June 2016, Debt Investments were reported as part of a Direct Investments segment along with a Funds Management segment. As a consequence of the sale of the Aurora Funds Management Limited subsidiary on 30 June 2016, the 3 new segments described (above) and reported (below) have been adopted which more appropriately reflects the current operations of the Consolidated Entity, as assessed by the Company's Investment Committee (being the 'chief operating decision-maker' under AASB 8 (Operating Segments)).

31 Dec 16	Investments			
	Equity \$'000	Debt \$'000	Corporate \$'000	Total \$'000
<b>Segment profit and loss</b>				
Revenue and income	2,199	583	1	2,783
Expenses	(127)	(315)	(1,247)	(1,689)
<b>Results from operating activities</b>	<b>2,072</b>	<b>268</b>	<b>(1,246)</b>	<b>1,094</b>
Finance expenses	-	-	(154)	(154)
<b>Profit/(Loss) before Income Tax</b>	<b>2,072</b>	<b>268</b>	<b>(1,400)</b>	<b>940</b>
Income tax expense	-	-	-	-
<b>Profit/(Loss) for the half year</b>	<b>2,072</b>	<b>268</b>	<b>(1,400)</b>	<b>940</b>
Segment assets	15,872	17,018	3,123	36,013
Segment liabilities	(118)	(244)	(4,668)	(5,030)
<b>Net assets</b>	<b>15,754</b>	<b>16,774</b>	<b>(1,545)</b>	<b>30,983</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the half year ended 31 December 2016

### 7. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 Dec 16	30 Jun 16
	\$'000	\$'000
<b>Financial assets at fair value through profit or loss</b>		
Shares in listed investments	12,897	13,095
<b>Financial liabilities at fair value through profit or loss</b>		
<b>Current</b>		
Foreign Exchange futures	-	17
<b>Non-Current</b>		
Convertible redeemable promissory notes (CRPN)	4,260	4,203
<b>Movement in CRPN</b>		
<b>Opening balance</b>	4,203	4,426
CRPN bought-back on-market	-	(25)
Unrealised loss/(gain) on revaluation	57	(198)
<b>Closing balance</b>	4,260	4,203

The listed CRPN's (ASX:KBCPA) are measured and recognised as a financial liability at fair value through profit or loss. The CRPN's were issued on 30 June 2015 on the following terms:

- face value of \$1.00 each with maturity on 31 July 2020;
- fixed interest rate of 7% per annum generally payable in arrears on 20 March, 20 June, 20 September and 20 December each year;
- regarded as an 'equity interest' under Australian tax law with interest payments regarded as a 'non-share dividend';
- interest payments are fully franked (where possible) or grossed up with additional cash payments to compensate for any unfranked component and 'qualified' Australian resident holders will have access to franking credits in this regard;
- ranks ahead of ordinary shares with preferential right to payment of distributions and capital;
- at maturity, the holders have the ability to request a conversion of their CRPN to ordinary shares at a 2.5% discount of the volume weighted average price (VWAP) of the Company's listed shares (ASX:KBC) at the time. The Company may at that time either convert the CRPN into ordinary shares or redeem the CRPN for cash at face value;
- the Company may also elect to convert the CRPN to ordinary shares at a 5% discount to VWAP at the time or redeem the CRPN for cash on the occurrence of certain trigger events.

Further details are in the CRPN Prospectus (dated 17 June 2015).

### 8. LOANS AND RECEIVABLES

	31 Dec 16			30 Jun 16		
	Gross value	Impairment	Total	Gross value	Impairment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Infrastructure	12,156	(6,082)	6,074	12,400	(6,082)	6,318
Private equity	6,917	-	6,917	6,740	-	6,740
Property	4,189	(3,304)	885	4,189	(3,304)	885
Insurance	3,142	-	3,142	3,279	-	3,279
Other	743	(82)	661	104	(104)	-
	<b>27,147</b>	<b>(9,468)</b>	<b>17,679</b>	<b>26,712</b>	<b>(9,490)</b>	<b>17,222</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the half year ended 31 December 2016

### 8. LOANS AND RECEIVABLES (continued)

	31 Dec 16	30 Jun 16
	\$'000	\$'000
<b>Movement in impairment</b>		
<b>Opening balance</b>	<b>9,490</b>	<b>23,736</b>
Loans written off	-	(14,622)
Impairment	(22)	376
<b>Closing balance</b>	<b>9,468</b>	<b>9,490</b>

- (a) **Loan Receivables – Infrastructure:** In 2007/2008, Keybridge financed the development and construction of the Totana 1.05MWp Solar Photovoltaic Park in the Murcia region in southern Spain. Under Spanish Royal Decree, Spanish energy supplier, Iberdrola, (which has a 25 year (plus two 5 year extensions) purchase off-take arrangement) is required to purchase all electricity produced by Totana at Government mandated feed-in tariff prices plus (since July 2013 under Royal Decree) additional compensation payments (which are intended to provide a reasonable return on operations and capital invested for renewable energy sources and is subject to review every 3 years). The loan (which currently accrues interest at 7.25% pa) is repayable on maturity on or about December 2038. During the financial half year, Keybridge has received €0.215m (A\$0.319m) in cash loan repayments.

As at half-year balance date, the loan was carried at Directors' valuation (net of impairments) of €4.17m (A\$6.074m) (30 June 2016: €4.23m (A\$6.318m)) against the accrued gross value of €8.25m (A\$12.156m) (30 June 2016: €8.31m (A\$12.400m)).

- (b) **Loan Receivables - Private Equity:** Keybridge holds a US\$4.3m a limited recourse promissory note by RPE I Investor LLC (**RPE Investor**) (a subsidiary of Republic Financial Corporation (**RPC**), a US private investment company) secured (via collateral pledged) over RPE Investor's 53.5% interest in the Republic Private Equity I Limited Liability Limited Partnership, a private equity fund (managed by a related party to RPC) with investments in two active US based manufacturing/distribution businesses (**RPE Fund**). The principal and accrued interest (at 14.5% pa) under the note is repayable on maturity on 29 December 2017 (which is subject to extension/re-finance by mutual agreement of the parties).

As at half-year balance date, the loan was carried at Directors' valuation (net of impairments) of US\$5.01m (A\$6.917m) (30 June 2016: US\$5.01m (A\$6.74m)) – this compares with the US\$5.99m value of the security interest being 53.5% of RPE Fund's (unaudited) net assets of US\$11.19m (based on the fund's latest available 31 December 2016 Quarterly Report) (30 June 2016: US\$32.09m security value based on 53.5% of the RPE Fund's (unaudited) net assets of US\$59.98m (based on the fund's then latest available 31 March 2016 Quarterly Report)).

- (c) **Loan Receivables – Property:** Keybridge has registered mortgages over strata title lots comprising Conference Facilities at a Hotel located in a beachside suburb in north Sydney as security for loans to private companies (which are in liquidation). As at half-year balance date, the loan was carried at Directors' valuation (net of impairments) of \$0.885m (30 June 2016: \$0.885m) – this was based on an independent valuation received in respect of the lots in May 2016. Keybridge has also fully impaired a loan of \$3.304m (in 2012/13) in respect of a multi-staged residential development in Sydney where Keybridge is (indirectly) the sole holder in unit trusts where the corporate trustees are in liquidation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the half year ended 31 December 2016

### 8. LOANS AND RECEIVABLES (continued)

- (d) **Loan Receivables – Insurance:** Keybridge has invested NZ\$3.8m (A\$3.4m) (via NZ\$0.109m equity (10.13%) and NZ\$3.691m notes) into Foundation Life, to finance Foundation's acquisition of Tower Limited's life insurance business in New Zealand in 2014. Interest of 9% pa is payable under the note, which is redeemable by noteholders in 10 years (May 2024) or by Foundation (from time to time). Keybridge received a NZ\$0.109m equity (A\$0.105m) return of capital distribution in March 2015, which reduced (for accounting purposes) the carrying value of this 10.13% equity component to nil. During the half year period, Keybridge has received NZ\$0.289m (A\$0.275m) interest and NZ\$24k (A\$23k) redemption proceeds from Foundation. As at half-year balance date, the loan balance is NZ\$3.266m (A\$3.142m) (30 June 2016: NZ\$3.426m and A\$3.279m) and Keybridge retains its 10.13 % equity interest in Foundation Life.
- (e) **Loan Receivables - Other:** Includes \$0.37m accrued interest receivable in respect of Executive Share Plan (ESP) loans attributable to Directors. As at the previous balance date (30 June 2016), \$0.262m accrued interest in respect of the same were reversed out of receivables and posted to the Share-based Payments Reserve in Equity given the Board's intent at the time was to waive such interest. The Directors have reviewed the treatment of accrued interest under the ESP loan terms and have have changed their intent with regard to recovering the interest. The Directors have determined that it is appropriate to recognise accrued interest as a receivable and accordingly, the outstanding accrued interest in this regard as at half-year balance date have now been recognised (with a corresponding reversal out of the Share-based Payments Reserve).

### 9. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

#### Fair value hierarchy

The following tables present the Consolidated Entity's financial assets and liabilities measured and recognised at fair value at balance date categorised by the following levels:

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

#### Level 3 fair value measurements

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. 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 Consolidated Entity were to provide new loans and advances or acquire new borrowing facilities as at balance date instead of the original effective interest rate.

31 Dec 2016	Carrying amount	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets at fair value through profit or loss:					
Shares in listed investments	12,897	12,897	-	-	12,897
Loans and receivables	17,679	-	-	17,029	17,029
<b>Total financial assets</b>	<b>30,576</b>	12,897	-	17,029	<b>29,926</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the half year ended 31 December 2016

### 9. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

31 Dec 2016	Carrying amount	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	\$'000	\$'000	\$'000	\$'000	\$'000
CRPN	4,260	4,260	-	-	4,260
<b>Total financial liabilities</b>	<b>4,260</b>	<b>4,260</b>	<b>-</b>	<b>-</b>	<b>4,260</b>

#### 30 Jun 2016

Financial assets at fair value through  
profit or loss:

Shares in listed investments	13,095	13,095	-	-	13,095
Loans and receivables	17,222	-	-	16,974	16,974
<b>Total financial assets</b>	<b>30,317</b>	<b>13,095</b>	<b>-</b>	<b>16,974</b>	<b>30,069</b>

Financial liabilities at fair value  
through profit or loss

Foreign exchange futures	17	17	-	-	17
CRPN	4,203	4,203	-	-	4,203
<b>Total financial liabilities</b>	<b>4,220</b>	<b>4,220</b>	<b>-</b>	<b>-</b>	<b>4,220</b>

There have been no transfers between the levels of the fair value hierarchy during the financial half year.

#### Fair values of other financial instruments

	31 Dec 16	30 Jun 16
	\$'000	\$'000
<b>Financial assets</b>		
Cash and cash equivalents	2,060	1,665
Trade and other receivables	319	350
	<b>2,379</b>	<b>2,015</b>
<b>Financial liabilities</b>		
Payables	(770)	(1,050)

Due to their short-term nature, the carrying amounts of cash, current receivables and current payables are assumed to approximate their fair value.

### 10. DIVIDENDS AND CRPN INTEREST PAYMENTS

		31 Dec 16	31 Dec 15
	Paid On	\$'000	\$'000
<b>Dividends paid during the financial half year:</b>			
0.25 cent per share fully franked dividend	01-Oct-15	-	398
<b>CRPN interest paid during the financial half year:</b>			
CRPN interest payment (fully franked)	20-Sep-15	-	78
CRPN interest payment (fully franked)	21-Dec-15	-	86
CRPN interest payment (fully franked)	21-Sep-16	77	-
CRPN interest payment (fully franked)	21-Dec-16	77	-
		<b>154</b>	<b>164</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the half year ended 31 December 2016

10. DIVIDENDS AND CRPN INTEREST PAYMENTS (continued)	31 Dec 16	31 Dec 15
	\$'000	\$'000
Franking credits available for subsequent periods based on a tax rate of 30% (2016: 30%)	<u>7,779</u>	<u>7,983</u>

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- (a) Franking credits that will arise from the receipt of dividends recognised as receivables at balance date;
- (b) Franking credits that will arise from the payment of the amount of the provision for income tax; and
- (c) Franking debits that will arise from the payment of dividends and CRPN interest recognised as a liability at balance date.

The franking credits attributable to the Consolidated Entity include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid out as franked dividends.

CRPN's are regarded as an 'equity interest' under Australian tax law with interest payments regarded as a 'non-share dividend'. Interest payments will be fully franked (where possible) or grossed up with additional cash payments to compensate for any unfranked component. 'Qualified' Australian resident holders will have access to franking credits in this regard. Further details are in the CRPN Prospectus (dated 17 June 2015).

11. INVESTMENT IN ASSOCIATE ENTITY	Ownership Interest		31 Dec 16	30 Jun 16
	31 Dec 16	30 Jun 16	\$'000	\$'000
HHY Fund (ASX:HHY)	25.49%	21.62%	<u>2,859</u>	<u>2,662</u>

#### Reconciliation of carrying amount:

Opening balance	2,662	2,301
Purchase of additional units	240	-
Share of Associate entity's net profit/(loss) after tax	(43)	361

<b>Carrying amount of investment in Associate Entity</b>	<u><b>2,859</b></u>	<u><b>2,662</b></u>
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Fair value (at market price on ASX) of investment in Associate entity	2,718	2,374
Net asset backing value of investment in Associate entity	<u>2,842</u>	<u>2,662</u>

#### Summarised statement of profit or loss and other comprehensive income

Revenue	156	2,221
Expenses	(420)	(453)
<b>Profit/(loss) from continuing operations before income tax</b>	<u><b>(264)</b></u>	<u><b>1,768</b></u>

#### Summarised statement of financial position

Total assets	11,505	12,363
Total liabilities	357	50
<b>Net assets</b>	<u><b>11,148</b></u>	<u><b>12,313</b></u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the half year ended 31 December 2016

### 12. RELATED PARTY TRANSACTIONS

#### (a) Transactions with Directors

- (i) On 15 November 2016, the Company sold its shareholding (100%) in Keybridge Funds Management Pty Limited (**KFM**) to an entity associated with former Director, Antony Sormann (who resigned on 13 October 2016), for consideration of \$8,500, resulting in a net gain on disposal of \$8,490. KFM did not have any active operations. The sale was negotiated and agreement reached on an arm's length commercial basis.
- (ii) During the financial half year, the Consolidated Entity incurred legal expenses totalling \$33,926 with Atanaskovic Hartnell Lawyers (**AH**). Non-Executive Director, Jeremy Kriewaldt (appointed 13 October 2016), is a Partner in AH and provided some of the legal services in this regard. No fees have been charged by AH (to 31 December 2016) subsequent to Mr Kriewaldt's appointment as a Director. Fees of \$9,142 (excluding GST) have been charged subsequent to 31 December 2016. AH fees are charged by AH and paid by the Consolidated Entity on an arm's length commercial basis and Mr Kriewaldt is not involved in the Consolidated Entity's decisions concerning engagement of legal services to be provided by AH.
- (iii) On 23 November 2016, the Company entered into an agreement with Aurora Funds Management Limited (**AFML**) for an AFML employee to provide portfolio management services to the Company in respect of the Company's management of the investment portfolio of the HHY Fund (ASX:HHY) (ie. pursuant to the IMA referred to below). The Company's Chairman, John Patton (appointed a Director on 10 August 2016 and Chairman on 13 October 2016) is also the Managing Director and a shareholder of AFML. During the financial half year, fees of \$3,000 have been incurred by the Company in this regard. The arrangement was negotiated and agreement reached on an arm's length commercial basis.
- (iv) As a consequence of Antony Sormann's resignation as a Director on 16 October 2016, the status of his [6m](#) Executive Share Plan (**ESP**) shares and outstanding accompanying ESP loan (comprising \$0.907m principal and \$0.139m accrued interest to date of resignation) is as follows:
- The principal amount due under the ESP loan (being the recourse component) is cancellable against the cancellation of the (vested and unvested) ESP shares;
  - The accrued interest on the loan (up to 16 October 2016) (being the non-recourse component) is payable on the repayment date (being generally 31 December 2017, unless the parties agree to an earlier date); and
  - The Company intends to seek shareholder approval at the 2017 annual general meeting (or an earlier general meeting, at the Company's discretion) to release Mr Sormann from liability to pay the accrued interest under the ESP loan, pursuant to the Corporations Act 2001.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## for the half year ended 31 December 2016

### 12. RELATED PARTY TRANSACTIONS (continued)

#### (b) Transactions with Associate Entities

- (i) The Company entered into an Investment Management Agreement (**IMA**) (dated 30 June 2016) with AFML (as Responsible Entity/Trustee) for the Company to manage the investment portfolio of the HHY Fund (ARSN 112 579 129 (ASX:[HHY](#))). During the half year, the Company earned \$41,840 in fees income under the IMA from AFML (as Responsible Entity/Trustee of HHY).
- (ii) The Company has advanced loans to Bridge Infrastructure Capital Pty Limited (regarded as an Associate entity in which the Company has a 50% interest) (30 June 2016: 50%). Bridge owns BIC Europe Limited which owns the Totana Solar Park asset in Spain. Further details are also in Note 8(a) above. During the financial half year, interest of €0.156m (A\$0.227m) has accrued on this loan and €0.215m (A\$0.319m) cash loan repayments have been received.

### 13. LOAN COMMITMENTS

The Consolidated Entity does not have any loan commitments (2015: Nil).

### 14. CONTINGENCIES

- (a) **Further Contingent Consideration from Sale of Aurora Fund Management Limited (AFML):** Pursuant to a share sale agreement (dated 27 June 2016) between the Company and Seventh Orion Pty Ltd (**SOPL**) in respect of the [sale of](#) the Company's (100%) holding in AFML to SOPL, further consideration of up to ~\$0.488 m is payable by SOPL to the Company, as follows:

- (i) Deferred consideration is payable subject to the status of specified Aurora funds as at 30 June 2017; and
- (ii) Performance fees are payable (on or before 31 March 2018) subject to the status of convertible notes (held by specified Aurora funds) issued by Antares Energy Limited (ASX:[AZZ](#)) (deed administrators appointed; subject to deed of company administration).

The Directors are not currently able to assess the probability and extent of any likely recoveries under the above contingent consideration terms (save for \$50,000 payable unconditionally by SOPL on or before 30 June 2017).

- (b) **Litigation against PR Finance Pty Ltd:** The Consolidated Entity has commenced proceedings in the Victorian Supreme Court to seek leave to commence an action against PR Finance Group Limited (in liquidation) (**PR Finance**) for damages (totalling ~\$4.8m) arising from breaches of duty of care and diligence, breaches of warranties under a scheme of arrangement and breaches of directors' duties. The Company acquired PR Finance under a [scheme of arrangement](#) (first announced in [April 2013](#) and) completed in [August 2013](#). The Consolidated Entity appointed an Administrator to PR Finance and its subsidiaries in [October 2013](#) after ASIC had issued a letter to a subsidiary of PR Finance (involved in short-term consumer lending) expressing concerns in relation to a breach of National Consumer Credit Laws and seeking a cessation of such business. The PR Finance group of companies were placed into liquidation in [May 2014](#). The proposed action essentially relates to the conduct of the previous directors and officers of PR Finance vis a vis their conduct in the abovementioned lending business and in the sale of PR Finance under the scheme of arrangement. The Directors are not currently able to assess the probability of success and the extent of any likely recoveries under the litigation, which is expected to advance in stages (including mediation) over a one to ~2 year period.

# **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

## **for the half year ended 31 December 2016**

### **15. EVENTS OCCURRING AFTER THE REPORTING PERIOD**

No matter or circumstance has arisen since the end of the financial half year that significantly affected, or may significantly affect, the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

# DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Keybridge Capital Limited made pursuant to [sub-section 303\(5\)](#) of the *Corporations Act 2001*, we state that:

In the opinion of the Directors:

- (1) The financial statements and notes of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:
  - (a) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2016 and of its performance for the half year ended on that date; and
  - (b) complying with Accounting Standards [AASB 134](#) (Interim Financial Reporting), *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (2) There are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

On behalf of the Board,



John Patton  
Chairman



Simon Cato  
Non-Executive Director and  
Chairman of Audit, Finance and Risk Committee

28 February 2017

## **Independent Auditor's Review Report to the Directors of Keybridge Capital Limited**

We have reviewed the accompanying half-year financial report of Keybridge Capital Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2016, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year as set out on pages 18 to 34.

### *The Directors' Responsibility for the Financial Report*

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

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year 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 half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the 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 a half-year 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.

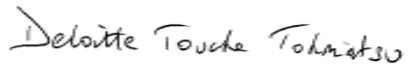
### **Auditor's Independence Declaration**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Keybridge Capital Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

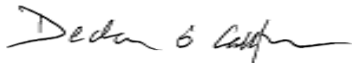
## *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the 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 consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.



DELOITTE TOUCHE TOHMATSU



Declan O'Callaghan  
Partner  
Chartered Accountants  
Sydney, 28 February 2017

# SECURITIES INFORMATION

## as at 31 December 2016

### SECURITIES ON ISSUE

Class of Security	Quoted on ASX	Unlisted
Fully paid ordinary shares (ASX: <a href="#">KBC</a> )	158,812,237	-
Executive Share Plan shares <sup>19</sup>	-	15,000,000
Convertible Redeemable Promissory Notes (ASX: <a href="#">KBCPA</a> ) <sup>20</sup>	4,401,047	-

### SUBSTANTIAL SHAREHOLDERS

Substantial Shareholders	Registered Shareholder	Number of Shares held	%Voting Power (as at 31 Dec 2016)
Australian Style Group Pty Ltd	Australian Style Group Pty Ltd	33,608,425	
	ABN AMRO Clearing Sydney Nominees Pty Ltd	2,012,267	22.74% <sup>(1)</sup>
	Australian Style Group Pty Ltd <NFJB Superfund A/C>	492,100	
Bentley Capital Limited (ASX: <a href="#">BEL</a> )	Bentley Capital Limited	15,850,000	19.96% <sup>(2)</sup>
	Scarborough Equities Pty Ltd	15,850,000	
Orion Equities Limited (ASX: <a href="#">OEQ</a> )	Bentley Capital Limited	15,850,000	19.96% <sup>(3)</sup>
	Scarborough Equities Pty Ltd	15,850,000	
Queste Communications Ltd (ASX: <a href="#">QUE</a> )	Bentley Capital Limited	15,850,000	19.96% <sup>(3)</sup>
	Scarborough Equities Pty Ltd	15,850,000	
Wilson Asset Management Group (WAM Capital Limited (ASX: <a href="#">WAM</a> ) WAM Active Limited (ASX: <a href="#">WAA</a> ) Wilson Asset Management Equity Fund)	RBC Investor Services Australia Nominees Pty Ltd	26,795,514	16.87% <sup>(4)</sup>

#### Notes:

- (1) Based on the Change of Substantial Holder Notice lodged by Australian Style Group Pty Ltd dated [24 March 2014](#) (updated to reflect current registered shareholdings and percentage voting power)
- (2) Based on the Change of Substantial Holder Notice lodged by BEL dated [8 July 2016](#)
- (3) Based on the Change of Substantial Holder Notice lodged by QUE and OEQ dated [8 July 2016](#)
- (4) Based on the Change of Substantial Holder Notice lodged by [Wilson Asset Management Group](#) dated [30 June 2016](#)

19 Issued on 10 December 2014 (refer KBC ASX Announcement dated 19 December 2014: [Appendix 3B and Further Detail Regarding Issuance of Loan Funded Shares](#)) after receipt of shareholder approval at an annual general meeting held on 28 November 2014 (refer KBC [Notice of AGM](#) released on ASX on 30 October 2014 and KBC ASX announcement dated 1 December 2014: [Results of AGM](#))

20 Keybridge issued Convertible Redeemable Promissory Notes on 30 June 2015 (refer KBC ASX Announcement dated 18 June 2015: [Appendix 3B](#)) after receipt of shareholder approval on 28 November 2014 (refer KBC [Notice of AGM](#) released on ASX on 30 October 2014 and KBC ASX announcement dated 1 December 2014: [Results of AGM](#)). The notes have a face value of \$1.00, pays interest at 7% pa and matures on 31 July 2020 (unless redeemed or bought-back by Keybridge earlier). Further details are in Note 7 of the accompanying 31 December 2016 financial statements and in the [CRPN Prospectus](#) (dated 17 June 2015).

# SECURITIES INFORMATION

## as at 31 December 2016

### DISTRIBUTION OF LISTED CONVERTIBLE REDEEMABLE PREFERENCE NOTES

Spread of Holdings	Number of Holders	Number of Notes	% of Total Issued Notes
1 - 1,000	811	162,660	3.70%
1,001 - 5,000	81	176,578	4.01%
5,001 - 10,000	19	129,445	2.94%
10,001 - 100,000	40	1,269,759	28.85%
100,001 - and over	7	2,662,605	60.50%
<b>TOTAL</b>	<b>958</b>	<b>4,401,047</b>	<b>100%</b>

### TOP TWENTY LISTED CONVERTIBLE REDEEMABLE PREFERENCE NOTEHOLDERS

Rank	Registered Noteholder	Notes Held	Total Notes Held	% Total Issued Notes
1	ABN AMRO Clearing Sydney Nominees Pty Ltd		1,079,714	24.53%
2	Aurora Funds Management Limited <Aurora Fortitude Absolute Return Fund> Aurora Funds Management Limited	621,210 <u>385,825</u>	1,007,035	22.89%
		Sub-total		
3	J P Morgan Nominees Australia Limited		190,277	4.32%
4	Marko Nominees Pty Ltd		140,611	3.19%
5	PW and VJ Cooper Pty Limited		135,900	3.09%
6	Nambia Pty Ltd		109,068	2.48%
7	Mr Jinxiang Lu		83,500	1.90%
8	Mrs Cuixian Wang		77,000	1.75%
9	A & G Siciliano Superannuation Pty Ltd		74,717	1.70%
10	G Chan Pension Pty Limited		63,810	1.45%
11	Bond Street Custodians Limited		55,840	1.27%
12	Csalt Super Pty Ltd		50,788	1.15%
13	Mr Milton Yannis		45,563	1.04%
14	Gyton Pty Ltd		43,226	0.98%
15	Australian Style Group Pty Ltd <NFJB Superfund A/C> Australian Style Group Pty Ltd	37,041 <u>5,627</u>	42,668	0.97%
		Sub-total		
16	Mr John Joseph Ryan		42,188	0.96%
17	Freshmo Investments Pty Ltd		41,200	0.94%
18	Mr John Corr		40,252	0.91%
19	Mr Yee Teck Teo		35,245	0.80%
20	Denald Nominees Pty Ltd		33,333	0.76%
<b>TOTAL</b>			<b>3,391,935</b>	<b>77.08%</b>



# SECURITIES INFORMATION

## as at 31 December 2016

### DISTRIBUTION OF LISTED ORDINARY SHARES

Spread of Holdings	Number of Holders	Number of Shares	% of Total Issued Capital
1 - 1,000	41	8,864	0.01%
1,001 - 5,000	189	675,697	0.43%
5,001 - 10,000	166	1,293,111	0.81%
10,001 - 100,000	272	8,887,450	5.60%
100,001 - and over	85	147,947,205	93.15%
<b>TOTAL</b>	<b>753</b>	<b>158,812,327</b>	<b>100%</b>

### UNMARKETABLE PARCELS

Spread of Holdings	Number of Holders	Number of Shares	% of Total Issued Capital
1 - 4,000	161	365,752	0.23%
4,001 - over	592	158,446,575	99.77%
<b>TOTAL</b>	<b>753</b>	<b>158,812,327</b>	<b>100%</b>

An unmarketable parcel is considered, for the purposes of the above table, to be a shareholding of 4,000 shares or less, being a value of \$500 or less in total, based upon the Company's last sale price on ASX as at 31 December 2016 of \$0.125 per share.

### TOP TWENTY LISTED ORDINARY FULLY PAID SHAREHOLDERS

Rank	Registered Shareholder	Shares Held	Total Shares Held	% Issued Capital
1	Australian Style Group Pty Ltd Australian Style Group Pty Ltd <NFJB Superfund A/C>	33,608,425 492,100	34,100,525	21.48%
2	RBC Investor Services Australia Nominees Pty Ltd		27,778,515	17.49%
3	Bentley Capital Limited		15,850,000	9.98%
4	Scarborough Equities Pty Ltd		15,850,000	9.98%
5	J P Morgan Nominees Australia Limited		6,850,005	4.31%
6	HSBC Custody Nominees (Australia) Limited - GSCO ECA HSBC Custody Nominees (Australia) Limited	4,812,500 6,390	4,818,890	3.03%
7	Cowoso Capital Pty Ltd		3,991,543	2.51%
8	Mr Nicholas Bolton		3,495,133	2.20%
9	Mr Stephen Norman Douglas Rowley		2,552,875	1.61%
10	ABN AMRO Clearing Sydney Nominees Pty Ltd		2,214,895	1.39%
11	Mr Patrick Martin Burroughs		2,000,000	1.26%
12	Dean Whitestone Pty Limited		2,000,000	1.26%
13	Mr Donald Gordon Mackenzie + Mrs Gwenneth Edna Mackenzie		1,602,539	1.01%
14	UBS Nominees Pty Ltd		1,534,262	0.97%
15	Jonrian Pty Ltd		1,347,200	0.85%
16	Denald Nominees Pty Ltd		1,200,000	0.76%
17	Mr Yee Teck Teo		1,100,000	0.69%
18	APPWAM Pty Ltd		1,000,000	0.63%
19	Mr Keith Danby Lucas		1,000,000	0.63%
20	Trafalgar Street Nominees Pty Ltd		909,091	0.57%
<b>TOTAL</b>			<b>131,195,473</b>	<b>82.61%</b>