KEYBRIDGE® CAPITAL LIMITED

Annual Report 2011

Financial Calendar

EVENT DATES FOR FINANCIAL YEAR 2012

Annual General Meeting .... Thursday 20 October 2011

Financial year 2012 half year results announced .... Thursday 9 February 2012

Financial year 2012 annual results announced .... Thursday 9 August 2012

Annual General Meeting .... Thursday 20 September 2012

The Company reserves the right to change these dates.

This Annual Report (including the Financial Report) is for the Group up to 30 June 2011.

THE REGISTERED OFFICE OF KEYBRIDGE CAPITAL LIMITED IS:

Level 26
259 George Street
Sydney NSW 2000

Contents

Chairman's Report

On behalf of the Directors of Keybridge Capital Limited, I present the Group's Annual Report for the year ended 30 June 2011.

The global financial downturn and its flow-on effects have had major impacts on the business operations of Keybridge Capital. These impacts continued during 2011, with prices in asset markets still to recover sustainably and senior bank debt tending to remain in short supply.

In 2011, Keybridge reported a net loss after asset impairments of $34.0 million. At year-end, the Group had shareholders' funds of $49.4 million, equating to approximately 29 cents per share.

The Board has been focused on managing the business to preserve as much net value for shareholders as possible. We have sought to reduce borrowings by accelerating the realisation of investments where practicable, and we have encouraged the management team to do all that it can to maximise the ongoing value of remaining investments.

Over the past two years, the Group has been successful in achieving a substantial reduction in the level of its outstanding borrowings. Between 30 June 2009 and 31 July 2011, Keybridge's level of borrowings fell from $215 million to $100 million.

The Group continues to have a good working relationship with its lending banks, and this has allowed Keybridge to realise investments in an orderly fashion. During the year, the maturity of our corporate debt facility was extended to June 2012. A key objective for the Board and management in the coming year will be to continue managing the Group's banking relationships to ensure that the ongoing terms of our debt facility allow us to achieve meaningful value for shareholders.

During the year, the Company appointed Peter Wood as an independent non-executive director. Peter has brought valuable experience and skills to the Board, particularly in relation to the Group's largest remaining asset class of aviation. Also during the year, Mark Worrall, who has an extensive asset financing background, was appointed as an executive director.

For the time being, Keybridge is not yet able to resume paying dividends to shareholders. The Board is focused on guiding the Group to enable dividends to be paid as soon as possible. In the meantime, we will continue to provide regular and transparent communication to stakeholders on the financial position of the Group.

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

Irene Lee
Chairman

Managing Director's Report

BACKGROUND

Keybridge Capital has a portfolio of loans and investments with a focus on the asset classes of aviation, lending, shipping, property and infrastructure.

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

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

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

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

During the past financial year, Keybridge agreed an extension of its debt facility with its banks, with the facility now having a maturity date of June 2012. The revised terms include a minimum repayment obligation of $12.5 million for the period from 31 December 2010 to 2 December 2011. As at the date of this report, the Group has made repayments of approximately $9.4 million since 31 December 2010. In addition, it has entered into contracts for the repayment of one of its aviation loans. This is expected to provide Keybridge with no less than USD45.0 million of net proceeds by mid October 2011, with which it can more than satisfy its milestone repayments.

PROFITABILITY

Keybridge incurred a net loss after tax for the year to 30 June 2011 of $34.0 million. This was composed of an operating loss of $4.3 million, losses from foreign exchange of $15.5 million and asset impairments of $16.1 million

	2011 $ million	2010 $ million
Income	11.3	27.5
Borrowing costs	(11.1)	(15.6)
Operating costs	(4.5)	(4.7)
Operating profit/(loss)	(4.3)	7.2
Foreign exchange	(15.5)	(11.6)
Net impairments	(16.1)	(33.2)
Income tax benefit/(expense)	1.9	(12.3)
Net loss after tax	(34.0)	(49.9)

The operating loss in 2011 was due to a much reduced level of income, which was the result of:

- a lower level of income-generating transactions due to the repayments that occurred in 2010 and 2011; and
- only income received as cash now being recognised in the accounts, whereas in 2010 some accrued income was also recognised.

The majority of Keybridge's transactions have ceased paying cash income to the Group. This has been due, in the main, to available cashflow being used within the transactions to accelerate the repayment of senior debt. The impact of this can be illustrated by Keybridge's average return on investments. In 2011, the average return on investments was approximately 6% per annum, compared with approximately 10% per annum in 2010, 14% per annum in 2009 and 19% per annum in 2008.

In contrast, the average cost of borrowings in 2011 was 9.6% per annum (versus 8.9% per annum in 2010).

The level of net impairments in 2011 was materially lower than in 2010. There were two key reasons for the new impairments in the last 12 months:

- continued weakness in shipping markets led the Group to recognise further writedowns in its shipping investments; and
- Keybridge has been seeking to accelerate the realisation of one of its aviation investments and it reduced the carrying value of that investment to recognise that such an accelerated realisation would likely need to be achieved at a discount to book value. Contracts for the repayment of the aviation transaction were entered into at the end of July 2011.

Of the Group's total assets as at 30 June 2011, approximately 80% were denominated in either US Dollars or Euro. On average during 2011, just over 60% of these foreign currency assets were hedged by corporate borrowings in the same currency. For the remaining, unhedged component of foreign currency assets, Keybridge's profitability was subject to variability from changes in the value of the Australian Dollar against the US Dollar and Euro.

The losses from foreign exchange in 2011 reflect the appreciation of the Australian Dollar across the year by approximately 25% and 6% against the US Dollar and the Euro, respectively, which resulted in a loss in value of the unhedged foreign currency assets.

The percentage of foreign currency assets hedged by foreign currency borrowings increased during the second half of the 2011 financial year when the Group's remaining Australian Dollar borrowings were converted to US Dollars.

The Group continues to not recognise its deferred tax benefits as an asset on the balance sheet due to the uncertainty of being able to utilise the benefits over time. Any movement in deferred tax benefits is recognised directly in the profit and loss and not on the balance sheet. This resulted in a tax benefit for the 2011 financial year.

BALANCE SHEET POSITION

As at 30 June 2011, the Group's balance sheet could be simplified as follows:

	$ million
Investments	145
Cash-on-hand and other assets	5
Liabilities	(101)
Shareholders' funds	49

This level of shareholders' funds equated to net tangible assets of approximately 29 cents per share.

The composition of investments by asset class was as follows:

	$ million	% of total
Aviation	86	59%
Lending	33	23%
Property	10	7%
Shipping	9	6%
Infrastructure	7	5%
	145	100%

Looking at each asset class in turn:

Aviation

The Group's aviation transactions predominantly involve preferred equity and mezzanine loan investments in passenger jet aircraft. While there have been signs of recent improvement, the aviation industry continues to be impacted by reduced airline profitability, lower secondary market prices of aircraft and a restricted availability of senior bank debt. In the past year, the Group received $9.6 million of repayments from its aviation investments. As mentioned earlier, Keybridge has entered into contracts which will result in almost a half of its aviation loans being repaid during the half year to December 2011.

Lending

These investments consist of one senior ranking loan, one subordinated loan and one preferred equity investment across a variety of industries. One of the loans pays interest and principal to Keybridge each month. The other two transactions are not currently making cash distributions to Keybridge. Over the past year, Keybridge realised $10.9 million of recoveries from its lending transactions.

Property

Keybridge's remaining property loans consist of a subordinated loan backed by a residential development project in Sydney and a subordinated loan secured by a pool of Australian commercial mortgages. In the past 12 months, Keybridge received $11.9 million of repayments from its property loans and receivables.

Shipping

In Shipping, the Group has two material shipping investments remaining. These are equity investments in four cargo-carrying vessels leased to two shipping companies for an average remaining term of just over two years. Charter rates and secondary market prices of vessels have fallen materially over the past few years. The shipping transactions in the Group's portfolio have senior debt facilities with loan-to-valuation covenants that have already been, or may in the future, be breached. Thus, the continuing support of the non-recourse senior lenders is important. The charter parties within the Group's shipping transactions continue to meet their payment obligations on time. In 2011, the Group received $0.7 million of repayments from the shipping portfolio.

Infrastructure

The Group has one remaining infrastructure investment, being a loan to, and an equity accounted investment in, a solar electricity facility in Spain. The secondary market prices for infrastructure investments have fallen over the past two years. This has been exacerbated by a decision by the Spanish Government in December 2010 to alter legislation to reduce the income able to be earned by solar facilities in Spain. In 2011, the Group received $0.1 million of repayments from the infrastructure investment.

WAY FORWARD

For the time being, we are not able to make new investments. Our priority is to achieve realisations of existing investments to repay our debt facility.

As we moved through 2011, the pace of realisations was slowing, with the remaining investments tending to be subject to illiquid underlying markets. This was particularly the case for aviation and shipping assets. Given the priority is to achieve further material reductions in our level of borrowings over the shorter term, we have been endeavouring to accelerate the realisation of at least one of our aviation investments. As explained earlier, this led us to recognise some reduction in our aviation carrying values as at year end.

Contracts have now been signed for the sale of the business underlying one of our aviation investments. This will result in Keybridge receiving a repayment amount of no less than USD45.0 million by mid October 2011, which is consistent with the revised carrying value for this investment.

Such a repayment places the Group in a stronger financial position. The key objective for the Group is to continue achieving repayments of loans and investments so as to reduce borrowings even further. The Keybridge Board will then be in a position to consider whether distributions to shareholders are able to resume and whether the Group should commence investing again.

Mark Phillips
Managing Director

Board of Directors

IRENE LEE

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

Irene Lee has an extensive background in the finance industry. Over the past 30 years she has held senior positions in investment banking and funds management in the United Kingdom, the United States and Australia. Previously, Irene was an Executive Director of Citicorp Investment Bank, Head of Corporate Finance at Commonwealth Bank of Australia and CEO of Sealcorp Holdings Limited. She was also formerly a Non-executive Director of Record Investments Limited, Mariner Financial Limited, Record Funds Management Limited, Ten Network Holdings Limited, and was a member of the Takeovers Panel and Executive Council of the University of Technology Sydney Faculty of Business.

Irene is presently a Non-executive Director of QBE Insurance Group Limited, ING Bank (Australia) Limited, The Myer Family Company Limited, Cathay Pacific Airways Limited, Sydney Symphony Limited and Non-executive Chairman of Hysan Development Company Limited. She is a member of the Advisory Council of JPMorgan Australia Limited.

MARK PHILLIPS

Appointed Managing Director of Keybridge Capital Limited in August 2006.

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

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

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

MARK WORRALL

Appointed Executive Director of Keybridge Capital Limited in September 2010.

Mark Worrall has over 36 years' experience in the finance and equipment leasing industry. He has considerable asset finance, leasing and project finance experience (including public-private partnerships) across a range of asset classes including rail, aviation, shipping, transport infrastructure, energy, mining and general plant and equipment.

Prior to joining Keybridge, Mark was a principal of his own consulting firm, Beacon Asset Finance Corporation, and was a founding partner of Sturt Capital Partners. Prior to Beacon, Mark was an Executive Director at Allco Finance Group for 20 years and, over the last five years at Allco, was the Global Head of Rail, with responsibility for the Group's rail operating leasing operations and investments in Australia, the United States and Europe.

Prior to Allco, Mark's career developed at several financial institutions practicing in the investment banking, leasing and asset finance markets, both in Australia and internationally.

PETER WOOD

Appointed Non-executive Director of Keybridge Capital Limited in October 2010.

Peter Wood has extensive experience in aircraft leasing and general aviation. Previously Peter was Executive Vice President and a Board member of Ansett Worldwide Aviation Services (AWAS), one of the largest aircraft lessors in the world.

Peter currently holds an executive position with ASX-listed aviation company, PTB Group Limited, and is a member of the Investment Committee of the Investec Global Aircraft Fund.

Originally Peter worked as a lawyer with a Sydney firm before spending two years with Norton Rose in London.

Keybridge Capital is committed to achieving and demonstrating the highest standards of accountability and transparency

Corporate Governance

The markets in which the Company has invested remained, on the whole, subdued for the majority of the 2011 financial year. The focus of the Company over the financial year continued to be managing its investments portfolio with the aim of bringing forward realisations where they could be achieved at acceptable prices, so as to reduce the Company's level of debt, and protecting the value of remaining investments as much as possible.

During the 2011 financial year, the following changes to the composition of the Board took place:

- Michael Perry and Cass O'Connor resigned as Non-executive Directors in September 2010.
- Mark Worrall was appointed as an Executive Director in September 2010.
- Peter Wood was appointed as a Non-executive Director in October 2010.

Keybridge Capital's existing corporate governance policies and practices meet the requirements of both the *Corporations Act 2001 (Cth)* and the Listing Rules of the Australian Securities Exchange (ASX). In formulating its policies, the Company has endeavoured, as far as practicable, to be consistent with the ASX Corporate Governance Principles and Recommendations (ASX Principles).

If there are instances where the Company is unable to comply with the ASX Principles, the Company has provided information as to the reasons it has been unable to comply and is contained within this Report.

Keybridge Capital and its Board of Directors are committed to achieving and demonstrating the highest standards of accountability and transparency and see the maintenance of a cohesive set of corporate governance policies and practices as fundamental to the success of the Company.

The following table sets out relevant ASX Principles and where in this Report they are discussed:

Principle Number	Description	Discussion in Report
1	Lay solid foundations for management and oversight	page 10
2	Structure the Board to add value	pages 11 to 13
3	Promote ethical and responsible decision-making	pages 14 to 16
4	Safeguard integrity in financial reporting	pages 16 to 17
5	Make timely and balanced disclosure	page 18
6	Respect the rights of shareholders	page 18
7	Recognise and manage risk	pages 18 to 20
8	Remunerate fairly and responsibly	page 21

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

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Relevant policies and charters

- Board Charter

The Board's primary responsibilities include:

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

The Board has delegated to management the responsibility for:

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

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

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

The Board has in place procedures to assess the performance of executives, including the Managing Director. For the Managing Director, this process involves the Remuneration Committee, and the Board reviewing the performance of the Managing Director across a range of key areas including profitability, debt reduction, business planning, stakeholder management and team leadership. The review is discussed with the Managing Director and a recommendation developed for Board approval covering base pay, incentive awards, equity awards and terms of engagement. For other executives, the Managing Director reviews each executive's performance across the same key areas, discusses the review with the executive and recommends any change in remuneration to the Remuneration Committee for approval. Further details regarding the performance review process and outcome for senior executives are contained in the Remuneration Report on pages 31 to 39.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Relevant policies and charters

- Board Charter
- Nomination Committee Charter

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

At present, the Board consists of four directors with an appropriate range of skills, experience and expertise to understand and deal competently with current and emerging business issues. The names of Keybridge Capital's directors during the financial year, including their respective skills, experience, relevant expertise and term of office are set out on pages 27 to 28.

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

The Board met 15 times during the 2011 financial year. Full details of directors' attendance at Board and committee meetings are set out in the Directors' Report on pages 29 to 30.

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

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

The Board committees are:

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

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

Details regarding the Nomination Committee are as follows:

Members and composition	Role
Irene Lee *(Chairman)* Mark Phillips Peter Wood *(appointed 8 November 2010)* Michael Perry *(resigned 15 September 2010)* Cass O'Connor *(resigned 15 September 2010)*	The primary objective of the Nomination Committee is to review the membership of the Board having regard to present and future needs of the Company and to make recommendations on Board composition and appointments. The Nomination Committee is responsible for: • reviewing the Board's role, the processes of the Board and Board Committees, the Board's performance and each director's performance; • identifying, and recommending to the Board, nominees for membership of the Board (including the Managing Director) and re-election of incumbent directors; • identifying and assessing the necessary and desirable competencies and characteristics for Board membership and regularly assessing the extent to which those competencies and characteristics are represented on the Board; • ensuring succession plans are in place to maintain an appropriate balance of skills on the Board and reviewing those plans; and • if appropriate, recommending the removal of directors.

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

Irene Lee is Chairman of the Nomination Committee. As Ms Lee was Executive Chairman of Keybridge Capital between October 2006 and October 2009, the Board acknowledges that she may not yet be viewed as independent. As such, the Company may not comply with Recommendation 2.4 of the ASX Principles which states that the Nomination Committee should be chaired by an independent director. The Board remains of the view that it is in the best interests of the Company that Irene Lee be Chairman given her skills, expertise and reputation, the small size of the Company's Board and the principal role of the Committee in ensuring that the Board, which she chairs, has an appropriate and effective membership. If actual or perceived matters of conflict arise or are likely to arise, any Committee Member may request that Peter Wood, an independent Non-executive Director, assume the role of Chair.

Board performance review

A performance review of the Board and AFRC was completed in May 2011. The performance review included the following assessments:

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

The performance review was conducted by the Company's Non-executive Director. The findings were discussed with, and recommendations adopted, by the Board.

Director independence

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

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

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

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

The appointment of Executive Director, Mark Worrall, in September 2010 and independent Non-executive Director, Peter Wood, in October 2010 brought the total number of directors to four.

As at the date of this Report, it is the Board's view that its Non-executive Director, Peter Wood, is independent in his role of overseeing the general operations of the Company. The Chairman, Irene Lee, has been an executive of the Company within the last three years and, for this reason, is currently not considered independent.

With the Managing Director and Executive Director also being on the Board during the year, the Company does not comply with Recommendation 2.1 of the ASX Principles which states that 'a majority of the Board should be independent directors'. The Board believes that its non-compliance with this recommendation is seen as being non-permanent, and given the current strategy of the Company of not undertaking new investments and reducing the Company's level of debt, the current Board composition is considered appropriate. The composition of the Board is kept under frequent review, particularly in the light of any changes in corporate strategy. The Company believes that the current Board has the level of expertise required to function effectively.

Chairman

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

The Chairman's role includes:

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

Recommendation 2.2 of the ASX Principles states that 'the chairperson should be an independent director'. As discussed above, in October 2009, the Chairman became Non-executive. Despite this, she may not yet be viewed as independent because of her previous role as Executive Chairman. As a result, the Company will continue not to comply with Recommendation 2.2 of the ASX Principles. The Board believes that its non-compliance with this recommendation is in the best interests of the Company given Irene Lee's skills, expertise, reputation and business relationships. In addition, the Board has been structured to ensure it can exercise independent judgement in relation to business dealings through adopting and implementing processes to manage any conflicts of interest that may arise through the Code of Corporate Conduct and Board Charter. In addition, it is the Company's practice to allow for the appointment of a 'lead independent director' to monitor and report on issues falling within the normal purview of a Non-executive Chairman. The lead independent director will chair any Board meeting or parts of Board meetings where the Chairman has absented herself due to a conflict of interest. During the 12 month period to 30 June 2011, there were no occasions when a lead independent director was sought.

Indemnity, access to information and independent professional advice

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

- executive management, to seek explanations and information; and
- external auditors to seek explanations and information without executive management being present.

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

Information in relation to indemnity and insurance arrangements for directors and officers of the Company is contained on page 29 of this Annual Report.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Relevant policies and charters

- Corporate Code of Conduct
- Code of Conduct for Directors and Senior Executives
- Share Trading Policy
- Related Party Policy
- Communications and Continuous Disclosure Policy
- Diversity Policy

Code of Conduct

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

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

Key issues addressed in the Corporate Code of Conduct include:

Corporate mission	The Company's mission is to preserve value for its shareholders as it manages and, over time, realises its investments portfolio. Key elements in achieving this mission include: • protecting the value of investments; • managing risk; • maintaining strong relationships with key stakeholders and financiers; • ensuring ongoing financial stability; and • retaining a high quality team.
Responsibility to shareholders and investors	The Company seeks to: • return capital to shareholders after repaying existing corporate borrowings; • serve and protect the long term interests of its shareholders and investors; • communicate openly, honestly and on a timely basis with its shareholders and the financial markets generally; and • ensure that financial disclosure to shareholders and other investors is based on best practice and complies with all relevant laws, regulations and rules.
Honesty and fairness	The Company will act honestly and fairly in all of its dealings. This includes: • honouring contractual commitments; • avoiding profiting from situations in which it has a conflict of interest; • where conflicts of interest arise, the Company using its best endeavours to ensure disclosure to all relevant parties; and • the Company and its employees not offering or accepting bribes or secret commissions.
Responsibilities to the community	The Company will engage in support for community activities, including donations and sponsorship activities that are reasonable for a company of its size and financial resources.
Regulatory compliance	The Company does, and will continue to, comply with all relevant laws, regulations and rules governing its activities in Australia and other jurisdictions in which it may operate.

Responsibilities to the individual	The Company seeks to ensure that: • employment practices are consistent with market practice and all relevant employment laws, regulations and rules; and • privacy of employees is respected and any confidential or privileged employee information in its possession is not misused.
Compliance	It is expected that senior executives and other employees will report promptly, and in good faith, any actual or suspected violation of the standards, requirements or expectations set out in the Corporate Code of Conduct and encourage others to do the same. The Code requires that all reports of any violation or unethical behaviour must be investigated thoroughly, the rules of natural justice are observed and appropriate disciplinary action is taken if an allegation is substantiated.

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

Trading in Company securities

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

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

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

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

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

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

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

Diversity

Keybridge Capital has established a Diversity Policy to promote diversity in the workplace.

The Company's objective is to promote a culture that draws on the diverse and relevant experience, skills, expertise, backgrounds and perspectives of its Directors and employees. It recognises the importance of gender diversity within its Board and management team.

The Board, in consultation with the Nomination Committee, will:

- set measurable objectives to promote gender diversity and review the objectives on an annual basis;
- evaluate the Company's performance against the set measurable objectives as part of the annual review of the effectiveness of this Policy; and
- review the proportion of women employed within the Company at least annually.

It is the responsibility of all employees to understand and comply with the Diversity Policy.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Relevant policies and charters

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

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

Members and composition	Role
Peter Wood *(Chairman)* *(appointed 8 November 2010)* Irene Lee Michael Perry *(Chairman)* *(resigned 15 September 2010)* Cass O'Connor *(resigned 15 September 2010)*	The primary objective of the AFRC is to assist the Board achieve its corporate governance and oversight responsibilities in relation to financial risk management, application of accounting policies, internal control and risk management systems, external financial reporting and legal and regulatory compliance. The Committee is required to consist of members who have: • appropriate financial expertise; and • a working knowledge of the financial services industry in which the Company operates. The Chairman of the Board is precluded from being the Chairman of the AFRC. Specifically, the role of the AFRC includes: • maintaining and improving the quality, credibility and objectivity of the financial reporting process; • assessing the appropriateness and application of the Company's accounting policies and principles so that they accord with the applicable financial reporting framework; • monitoring the Company's financial management, including management of the Company's funding, hedging, liquidity and insurance coverage; • reviewing the framework for management of the Company's transactional risks, including concentration exposures and the manner in which transaction-based decisions are made; • providing a forum for communication between the Board, external auditor and senior executives; • ensuring effective communication between the Board and the external auditor; • reviewing the independence and performance of the external auditor and providing them with confidential access to the Non-executive members of the Board and an ability to attend AFRC meetings; and • recommending to the Board the appointment, removal and remuneration of the external auditor, and reviewing the terms of their engagement, and the scope and quality of the audit.

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

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

Recommendation 4.2 of the ASX Principles states that 'an Audit Committee should have at least three members, all of whom are Non-executive directors and a majority independent, and that the committee is chaired by an independent director (who is not chair of the board)'. The Company's AFRC consists of two members, only one of whom is considered independent. The Company believes that its non-compliance with this recommendation should be seen as being non-permanent, and given the current Company strategy of not undertaking new investments and reducing the Company's level of debt, the current composition of the AFRC is appropriate. The Board believes that the current AFRC membership has both the requisite level of expertise and independence necessary to perform its tasks.

Further information on the qualifications of the Chairman of the AFRC is set out in the Directors' Report on page 28 of this Annual Report.

Management sign-off on financial reports

Consistent with their obligations under section 295A of the Corporations Act, the Managing Director and Financial Controller provide formal statements to the Board confirming that Keybridge Capital's financial reports present a true and fair view, in all material aspects, of the Company's financial position and performance and have been prepared in accordance with all relevant accounting standards (see page 19 of this Corporate Governance Statement for details of the sign-off provided for the financial year ended 30 June 2011).

External auditor

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

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

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

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

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

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

Relevant policies and charters

- Communications and Continuous Disclosure Policy

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

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

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

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Relevant policies and charters

- Board Charter
- Communications and Continuous Disclosure Policy

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

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

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Relevant policies and charters

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

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

Risk management systems

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

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

Division of risk management functions

Board of Directors

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

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

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

Audit, Finance and Risk Committee (AFRC)

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

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

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

Management reporting on risks

Management reporting on risks operates on a number of levels.

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

The Board receives regular reports from management on the quality of the Company's investments portfolio. Management also provides the Board with assessments of the Company's strategic transaction partners, as well as risk management updates addressing the material business risks facing the Company and the extent to which these are being managed effectively. Management reported to the Board on this basis throughout the financial year ended 30 June 2011.

The Board also receives written certifications from the Managing Director and Company Secretary which specifically addresses the Company's financial reporting processes. For the 2011 financial year, the Managing Director and Company Secretary certified that:

> "The declaration provided in accordance with section 295A of the Corporations Act in respect of the Consolidated Financial Report for the year ended 30 June 2011 is founded on a sound system of risk management and internal control and the system is operating efficiently and effectively in all material respects in relation to financial reporting risks."

Business risks

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

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

Further details of the Company's risk management framework are set out in Note 23 to the Financial Statements.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Relevant policies and charters

- Remuneration Committee Charter

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

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

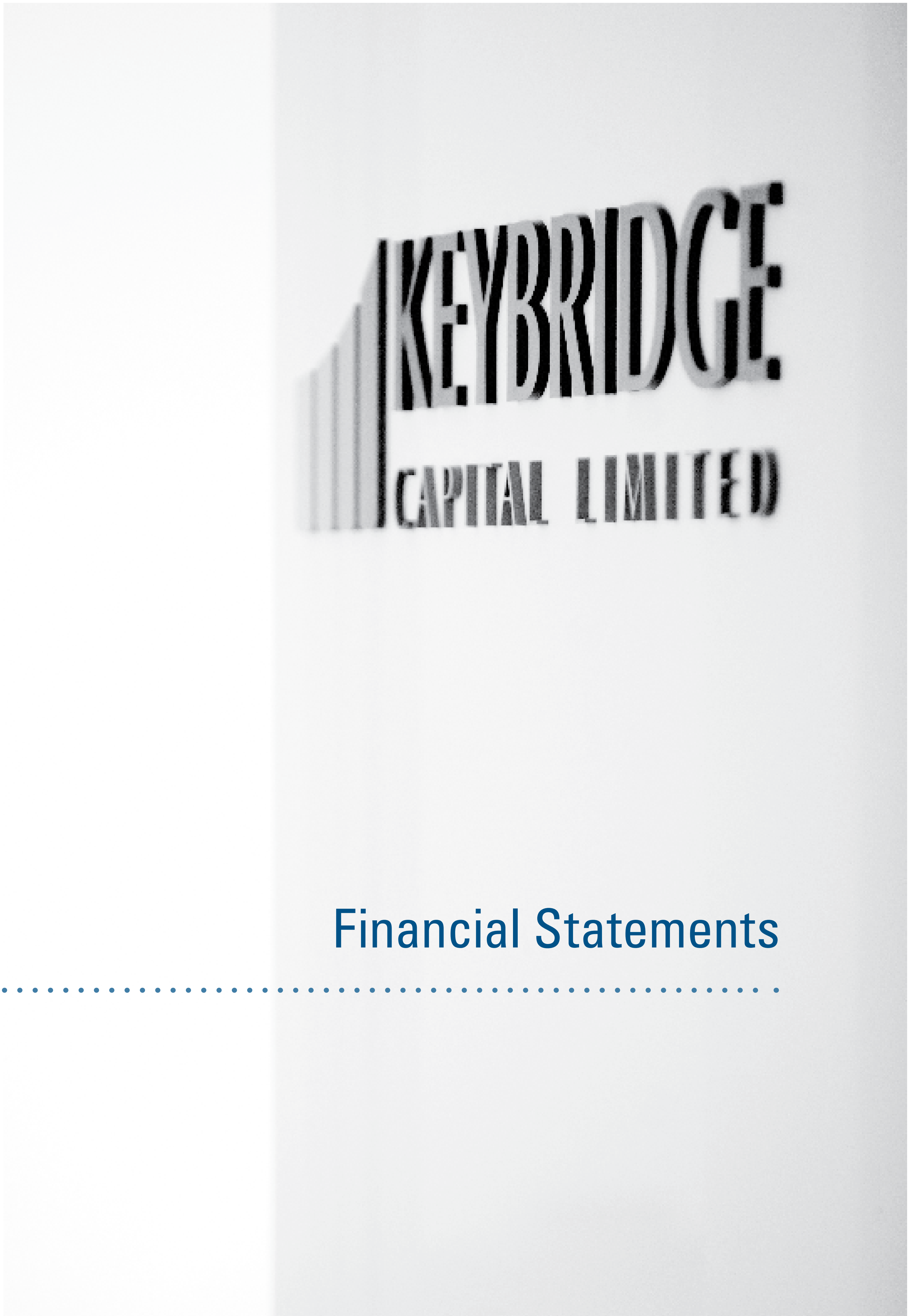
The Company's Remuneration Policy was reviewed by the Board in the 2011 financial year to ensure alignment between the remuneration strategy, the Company's ability to pay and its intent to manage existing investments and realise those investments over the medium term. Remuneration arrangements are outlined in the Remuneration Report on pages 31 to 39.

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

Members and composition	Role
Peter Wood *(Chairman)* *(appointed 8 November 2010)* Irene Lee Michael Perry *(Chairman)* *(resigned 15 September 2010)* Cass O'Connor *(resigned* 15 September 2010)	The primary objective of the Remuneration Committee is to advise the Board on remuneration policies and practices of the Company including the: • remuneration packages and other terms of employment for the Managing Director and senior executives; and • remuneration and retirement policies for Directors.

Recommendation 8.2 of the ASX Principles states that 'the Remuneration Committee should be structured so that it has at least three members, it consists of majority independent directors and that the committee is chaired by an independent director'. The Remuneration Committee consists of two members, only one of whom is considered independent. The Company believes that its non-compliance with part of this recommendation should be seen as being non-permanent. As previously mentioned, Irene Lee is currently not viewed as being independent, because of her previous role as Executive Chairman which was held within the past three years. The Company believes that her contribution to the Committee is essential given her skills, expertise and experience.

The structure and details of the remuneration paid to Directors and senior executives during the period are set out in the Remuneration Report on pages 31 to 39 of this Annual Report and Note 25 to the Financial Statements on pages 85 to 90 of this Annual Report.



Financial Statements

Directors' Report

The Directors present their report together with the Financial Statements of the Group comprising Keybridge Capital Limited (the Company) and its subsidiaries, and the Group's interest in associates for the financial year ended 30 June 2011 and the Auditor's Report thereon.

DIRECTORS

The Directors of the Company during the year to 30 June 2011 were as follows:

Non-executive Directors
Irene Lee (Chairman)
Michael Perry (resigned 15 September 2010)
Cass O'Connor (resigned 15 September 2010)
Peter Wood (appointed 14 October 2010)

Executive Directors
Mark Phillips (Managing Director)
Mark Worrall (appointed 16 September 2010)

PRINCIPAL ACTIVITIES

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

DIVIDENDS – KEYBRIDGE CAPITAL LIMITED

For the period to 30 June 2011, the Directors determined not to declare any dividends payable to shareholders. The Group does not expect to declare dividends in future periods until such time as its corporate debt is reduced substantially from the levels as at 30 June 2011.

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In May 2011, the Company signed a revised lending facility with its banks to extend the maturity of the facility to 2 June 2012. The revised terms include a minimum repayment obligation of $12.5 million for the period from 31 December 2010 to 2 December 2011. As at the date of this report, the Group has made repayments of approximately $9.4 million since 31 December 2010. The lending facility also requires the Group to continue to sweep all spare cash to the banks. This prevents the making of new investments and the payment of dividends to shareholders.

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

REVIEW OF OPERATIONS AND RESULTS

The markets in which the Group has invested, on the whole, remained subdued for the majority of the 2011 financial year. Approximately two-thirds of the Group's remaining portfolio of loans and investments is in the aviation and shipping sectors, where secondary markets are still affected by a lack of senior debt and by asset prices that have not recovered sustainably from the effects of the global financial crisis. The focus of the Group has been to manage its portfolio of loans and investments with the aims of bringing forward realisations where they can be achieved at acceptable prices, so as to reduce the Group's level of debt, and of protecting the value of remaining assets as much as possible.

For the purposes of this review, results for the Group are compared with the prior year to 30 June 2010.

The Group's net loss after tax attributable to ordinary equity holders for the year to 30 June 2011 was $34.0 million, compared with a loss of $49.9 million in the prior year. Basic and diluted loss in the last 12 months was 19.8 cents per share.

Since 30 June 2010, the Group has recognised a further $16.1 million of net impairments across its portfolio, of which $12.3 million net impairments were in the second half of the financial year. Details of the impairments and other matters relevant to the state of affairs of the Group are set out below and in Note 23 of the financial statements.

A summary of the consolidated revenues and results of the Group is set out below:

	2011 $ millions	2010 $ millions
Investment and interest income*	11.3	27.5
Operating expenses	(4.5)	(4.7)
Borrowing costs	(11.1)	(15.6)
Loss from operating activities	(4.3)	7.2
Net FX translation on loans and receivables, investments and debt	(15.5)	(11.6)
Net loss on embedded derivatives	–	(7.8)
Impairment provision	(16.1)	(25.4)
Loss before tax	(35.9)	(37.6)
Income tax (expense)/credit	1.9	(12.3)
Net loss after tax	(34.0)	(49.9)

** Includes fee income, gain on sale of trading asset and unrealised gain on other investments.*

Investment and interest income was materially lower in 2011 than in 2010 as a result of:

- a lower level of income generating investments due to the repayments that occurred in 2010 and 2011; and
- only income received as cash is now recognised in the accounts, whereas in 2010 some accrued income was also recognised.

As a result of the global financial crisis, the majority of Keybridge's loans and receivables ceased paying cash income to the Group due, in the main, to available cashflow being used within the transactions to either accelerate or reserve for the repayment of senior debt. The impact of this can be illustrated by Group's average return on investments. In 2011, the average return on investments was approximately 6% per annum, compared with approximately 10% per annum in 2010, 14% per annum in 2009 and 19% per annum in 2008.

Of the Group's total assets as at 30 June 2011, approximately 80% were denominated in either US Dollars or Euro. By year's end, approximately 83% of these foreign currency assets were hedged by corporate borrowings in the same currency. For the remaining unhedged component of foreign currency assets, the Group's profitability will be subject to variability from changes in the value of the Australian Dollar against the US Dollar and Euro.

The Australian Dollar appreciated approximately 25% and 6% against the US dollar and the Euro, respectively, in the 2011 financial year. This led to a loss in the value of the Group's unhedged foreign currency assets. For the 12 months to 30 June 2011, the net impact of this exposure was a loss of $15.5 million (2010: $11.6 million loss).

Operating expenses (excluding financing costs) were slightly lower in 2011 at $4.5 million compared with $4.7 million in 2010.

Borrowing costs were 29% lower in 2011 compared with the prior year. This reflected a lower cost as a result of the appreciation in the Australian Dollar and a lower level of borrowings due to repayments having been made.

The average cost of borrowings during the 2011 financial year was 9.6% per annum, compared with 8.9% per annum in the prior year. This increase in the average cost of borrowings reflects an increase in the percentage of borrowings being covered by higher cost interest rate swaps as repayments were made. These interest rate swaps have now matured.

The Group continues to be unable to recognise its deferred tax benefits as an asset due to the uncertainty of being able to utilise the benefits over time. Any movement in deferred tax benefits is recognised directly in the profit and loss and not on the balance sheet. This resulted in a tax benefit for the 2011 financial year of $1.9 million.

Over the past financial year, the Group more than satisfied all required corporate debt repayment obligations. Further, the Directors have formed a view, based on information available to the Group, that there is a reasonable expectation that investment realisations would occur so as to satisfy debt repayment obligations required to be made by 2 December 2011. The Directors acknowledge that the repayment obligation due on 2 June 2012 is likely to be achieved by refinancing at that time.

As confirmed in the Directors' Declaration on page 94 in this Annual Report, the Directors have reached the conclusion that, based on all relevant facts, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable and is a going concern.

Investments

Over the year to 30 June 2011, the value of Keybridge Capital's portfolio of loans and investments decreased from $226 million to $145 million. This reduction of $81 million was comprised as follows:

	$ millions
Portfolio at 30 June 2010	225.7
Repayments	(29.2)
Unrealised foreign currency losses	(34.5)
Realised foreign currency losses	(1.5)
Mark-to-market on other investments valued at fair value through profit and loss	0.5
Net impairment expense	(16.1)
Portfolio at 30 June 2011	144.9

The appreciation of the Australian Dollar against the US Dollar in the 2011 financial year was the major driver behind the significant level of unrealised foreign currency losses on assets. These foreign currency losses were partially offset by unrealised gains on the US Dollar corporate debt facility.

The split of loans and investments by asset class was as follows

	2010 $millions	2011 $millions	2011 % of total
Aviation	136	86	59%
Lending	38	33	23%
Property	15	10	7%
Shipping	27	9	6%
Infrastructure	10	7	5%
	226	145	100%

Over the course of the 2011 financial year, the Group made no new loans and investments. The pace of investment recoveries and loan repayments has slowed over the past year as a result of the Group's remaining investments and loans being more difficult to realise.

Aviation: The Group's aviation transactions predominantly involve preferred equity and mezzanine loan investments in passenger jet aircraft. While there have been signs of recent improvement, the aviation industry continues to be impacted by reduced airline profitability, lower secondary market prices of aircraft and a restricted availability of senior bank debt. In the past year, the Group received $9.6 million of repayments from the Group's aviation portfolio and impairments of $14.6 million were recognised.

Lending: These investments consist of one senior ranking loan, one subordinated loan and one preferred equity investment across a variety of industries. One of the loans pays interest and principal each month. The other two transactions are not currently paying cash distributions to Keybridge. Over the past year, Keybridge received $6.9 million of repayments from its lending transactions and net write-backs of impairments of $5.6 million were recognised.

Property: Keybridge has two material property loans remaining. One is a subordinated loan secured by a development in Zetland in Sydney. This development is meeting its required milestones, although it is likely to take at least a further 18 months for Keybridge to be repaid.

The other property investment is a subordinated loan secured by a pool of Australian commercial mortgages. The pool is gradually being reduced via the refinancing of the underlying loans, with the senior lender being repaid first. All the loans in the pool are first ranking. It is likely to take a further 2 to 3 years for Keybridge to be repaid. In the past 12 months, Keybridge received $11.9 million of repayments from its property loans and receivables and net write-backs of impairments of $7.4 million were recognised.

Shipping: In shipping markets, charter rates and secondary market prices of vessels have fallen materially over the past few years. The shipping transactions in the Group's portfolio have senior debt facilities with loan-to valuation covenants that have already been, or may in the future be, breached. Thus, the continuing support of the non-recourse senior lenders is important. These transactions are not currently making cash distributions to Keybridge. The underlying charter parties continue to meet their payment obligations on time and cashflow is being used to accelerate senior debt reduction at the asset level.

Keybridge has two material shipping transactions remaining. These are equity investments in and loans to associates that own four ships leased to two shipping companies for an average remaining term of just over two years. The ships are employed in the chemical/palm oil and petroleum products sectors. In 2011, the Group received $0.7 million of repayments from its shipping transactions, recognised a nil profit on the equity accounted investments and recognised impairments of $12.2 million.

Infrastructure: The Group has one remaining infrastructure investment, being a loan to and an equity accounted investment in a solar electricity facility in Spain. The secondary market prices for infrastructure investments have fallen over the past two years. This has been exacerbated by a decision by the Spanish Government in December 2010 to alter legislation to reduce the income able to be earned by solar facilities in Spain. In 2011, the Group received $0.1 million in repayments from the infrastructure investment, and impairments of $2.3 million were recognised and no loss was recognised on equity accounted investments.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Subsequent to balance date, binding contracts have been entered into for the repayment of one of the Group's aviation loans. This is expected to settle no later than mid October 2011 and will realise no less than USD45.0 million.

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

ENVIRONMENTAL REGULATION

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

INFORMATION ON DIRECTORS

Irene Lee

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

Experience and expertise

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

Other current directorships

QBE Insurance Group Limited
ING Bank (Australia) Limited
The Myer Family Company Limited
Cathay Pacific Airways Limited
Sydney Symphony Limited
Hysan Development Company Limited

Former directorships in last three years

Ten Network Holdings Limited

Special responsibilities

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

Interests in shares and options

1,750,414 Indirect

Mark Phillips

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

Experience and expertise

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

Other current directorships

Nil

Former directorships in last three years

Nil

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

Interests in shares and options
38,000 Direct
415,149 Indirect

Mark Worrall

BBus, UTS Lindfield (formerly Ku-ring-gai College of Advanced Education), CPA

Experience and expertise
Mark Worrall has spent the past 36 years in the finance and equipment leasing industry and has considerable asset finance, leasing and project finance experience across a range of asset classes including rail, aviation, shipping, transport infrastructure, energy, mining and general plant and equipment.

Other current directorships
SVA Nominees Pty Ltd (trustee of the SVA Future Fund), a capital fund established for the benefit of Social Ventures Australia Limited

Former directorships in last three years
Allco Foundation Limited

Interests in shares and options
175,000 Direct

Peter Wood

BEc, LLB, Sydney University

Experience and expertise
Peter Wood has extensive experience in aircraft leasing and general aviation industry. Over the past 25 years he has held senior positions in major aircraft leasing businesses.

Other current directorships
Nil

Former directorships in last three years
Nil

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

Interests in shares and options
Nil

COMPANY SECRETARY

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

INDEMNITIES AND INSURANCE

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

MEETINGS OF DIRECTORS

In addition to scheduled meetings of the Board, the Company has an Audit, Finance and Risk Committee, Remuneration Committee and Nomination Committee. The numbers of meetings of the Board of Directors and of each Committee held during the year ended 30 June 2011, and the numbers of meetings attended by each Director were as follows:

	Number of meetings attended	Number of meetings held during the time the directors held office during the financial year
Board		
Irene Lee – Chairman	14	15
Mark Phillips	15	15
Michael Perry*	3	3
Cass O'Connor*	4	4
Mark Worrall+	10	11
Peter Wood++	10	10

** To 15 September 2010.*

+ From 16 September 2010.

++ From 14 October 2010.

	Number of meetings attended	Number of meetings held during the time the directors held office during the financial year
Audit, Finance and Risk Committee		
Michael Perry – Chairman*	1	1
Cass O'Connor*	1	1
Irene Lee	4	4
Peter Wood – Chairman+	3	3

** To 15 September 2010.*

+ From 8 November 2010.

	Number of meetings attended	Number of meetings held during the time the directors held office during the financial year
Remuneration Committee		
Cass O'Connor – Chairman*	3	3
Michael Perry*	3	3
Irene Lee	3	3
Peter Wood – Chairman+	0	0

** To 15 September 2010.*

+ From 8 November 2010.

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

** To 15 September 2010.*

+ From 8 November 2010.

REMUNERATION REPORT (AUDITED)

This Remuneration Report comprises five sections as follows:

1. Organisational context – Audited
2. Summary of Directors and senior executives – Audited
3. Principles of Keybridge's approach to remuneration – Audited
4. Trading in Company securities – Audited
5. Details of Directors' and senior executives' remuneration – Audited

This Remuneration Report has been prepared for the Group for the year ended 30 June 2011 in accordance with section 300A of the Corporations Act, and associated regulations. The Remuneration Report has been audited by the Group's auditor as required by section 308(3C) of the Corporations Act.

1. Organisational context – Audited

1.1 Business performance

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

In considering the Group's performance and benefits for shareholder wealth, the remuneration committee have regard to the following indices in respect of the current financial year and the previous four financial years.

	2011	2010	2009	2008	2007
(Loss)/profit before net financing cost/income impairment, depreciation and amortisation and income tax (A$000's)	(31.5)	(7.8)	39.2	67.5	17.7
(Loss)/profit after impairment expenses before net financing cost /income and income tax (A$000's)	(47.6)	(33.3)	(112.3)	33.7	7.2
(Loss)/profit for the year attributable to members of Keybridge Capital Limited (A$000's)	(34.0)	(49.9)	(129.1)	20.8	4.1
Share price at year end (A$)	0.075	0.084	0.088	0.68	2.35
Basic (loss)/earnings per share (cents)	(19.78)	(29.02)	(75.05)	12.2	5.5
Dividends paid per share (cents)	Nil	Nil	Nil	11.6	2.3
Debt facility repayments	25.6	58.7	NA	NA	NA

As a consequence of the difficult market conditions experienced by the Group for the financial years 2010 and 2011, the Group revised its measurement requirements for key management personnel. Compensation encapsulates not only performance, but also reductions in, and management of, outstanding corporate borrowings. Over this period, management has met all mandatory debt repayment milestones required by its banks.

1.2 Remuneration at Keybridge Capital

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

Given the difficult financial conditions currently experienced by the Group since 2009, it was appropriate that an amended remuneration structure be implemented. This structure needed to balance the ability of the Group to pay, with the interests of the Group in retaining and motivating key executives. With this in mind, the Board developed a new remuneration plan effective for the 2010 and 2011 financial years that comprises fixed remuneration, reduced cash retention payments and the allocation of Keybridge Capital Limited ordinary shares. The amended remuneration structure is explained in section 3 below.

2. Summary of Directors and senior executives – Audited

2.1 Directors

As at 30 June 2011 the Directors of the Group were:

- Irene Lee, Non-executive Chairman.
- Peter Wood, Non-executive Director (appointed 14 October 2010).
- Mark Phillips, Managing Director.
- Mark Worrall, Executive Director (appointed 16 September 2010).

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

2.2 Senior executives

The following persons were senior executives of the Group during the 2011 financial year:

- Mark Phillips Managing Director.
- Mark Worrall, Executive Director.
- Adrian Martin Company Secretary.

3. Principles of Keybridge's approach to remuneration – Audited

3.1 Overview of strategy and remuneration policy

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

The Group's Remuneration Policy for the year to 30 June 2011 was structured to incorporate fixed fees for the Chairman and Non-executive Directors and fixed and incentive and retention-based elements for executives, including the Managing Director and Executive Director.

The Director and Employee Share Scheme instituted in 2006 has been cancelled, with all directors and employees having surrendered their entitlements under that Scheme due to expiration.

In order to retain and motivate key executives, the Group introduced new remuneration arrangements in 2010 which included the adoption of an additional component of at-risk remuneration, being the incentive and retention payments and the Employee Equity Plan (details of which are set out in section 3.3.2).

	Chairman and Non-executive Directors	Senior executives, including the Managing Director and Executive Director
Fixed remuneration		
Fees	Yes	No
Salary	No	Yes
Superannuation	Yes[(a)]	Yes
Other benefits	Yes	Yes[(b)]
Performance-based remuneration		
Short-term incentive and retention payments	No	Yes
Long-term incentive and retention share-based payments	No	Yes[(c)]
Termination benefits	No	Yes

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

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

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

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

3.2 Chairman and Non-executive Directors

Fees and other benefits

For the 12 months to June 2011, the annual fee payable to the Chairman was $120,000 (plus statutory superannuation) and to the Non-executive Directors was $60,000 (plus statutory superannuation). These fees are unchanged since October 2006. There are no additional fees for chairing or being a member of a committee. The fees to the Chairman and Non-executive Directors were recommended by the Remuneration Committee and set by the Board within a maximum aggregate annual amount of $525,000 (being the amount approved at the Annual General Meeting on 28 November 2007). The aggregate amount of fees paid in the 2011 financial year was $227,300.

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

The Chairman and Non-executive Directors do not receive retirement allowances, bonuses or other performance-based incentive payments, and are not participants in any employee share scheme.

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

3.3 Executive remuneration

Keybridge Capital's remuneration has been structured to be market competitive and to retain and motivate a small team of employees capable of delivering the Group's business objectives. The Board approved amended remuneration arrangements for executives for the 2010 and 2011 financial years. Total remuneration for executives has consisted of a mix of 'fixed' and 'performance-based' elements.

3.3.1 Fixed remuneration

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

3.3.2 Performance-based reward

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

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

These key performance indicators have been selected as they reward actions which contribute towards the longevity of the Group. The maximum amount for the Short and Long Term Incentive payments were determined for each executive by reference to:

- The terms of executives existing employment contract.
- Market levels of remuneration for executives of similar skills and experience: and the capacity of the Group to be able to afford such payments. The over-riding intention of the payments was to provide an incentive for the executives to remain with the group and to promote its longer term prosperity.

The Remuneration Committee is responsible for determining whether key performance indicators are met by reviewing the financial information of the Group and the progress of business development.

Long Term Incentive: Employee Equity Plan

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

If all the performance conditions were met in the respective year, 100% of the performance rights granted for that year were to vest. In the event that an employee failed to satisfy all the performance conditions, the percentage of performance rights which vested were to be determined by the Board by reference to the extent to which the performance conditions were satisfied. If, for any reason it was not clear whether a performance condition or any aspect thereof had been satisfied, the Board, in its absolute discretion, is able to determine whether the performance condition was deemed to have been satisfied.

Across all employees and key management personnel, the maximum number of shares that were able to be allocated each year was as follows:

- 2010: 4,150,000.
- 2011: 4,199,999.

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

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

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

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

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

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

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

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

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

Managing Director

Prior to the Annual General Meeting on 29 September 2010, the Managing Director requested the Board to defer his cash retention entitlement of $220,000 and share retention entitlement of 2,200,000 shares for 2010 and incorporate them as part of his potential entitlements for the 2011 year. The Board accepted this request. As a result of the deferral of the retention payments, the Managing Director was paid nil cash and nil share retention amounts for the financial year ended 30 June 2010. In 2011, the aggregate of the 2010 and 2011 entitlements were payable based on the extent to which the performance conditions for the 2011 financial year were satisfied. The sales restriction periods for any deferred 2010 shares actually allocated will be taken to have commenced from 30 June 2010, being the commencement date under the arrangements.

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

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

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

3.3.3 Changes to the current performance-based reward

The remuneration arrangements for executives described above applied for the 2010 and 2011 financial years. For the period from 1 July 2011, the Board has determined that remuneration for executives will continue to have 'fixed' and 'performance-based' components. The principal change from arrangements that applied for 2010 and 2011 is that the performance-based component will be made wholly in the form of cash. There will be no payment in the form of Keybridge shares for the time being.

4. Trading in Company securities – Audited

4.1 Share Trading Policy

Keybridge Capital's Share Trading Policy sets out the Group's position regarding dealing in the Group's securities. The Policy states:

- Directors, senior management and other employees may deal in Company Securities only during the nominated periods set out in the Policy;
- clearance must be obtained from an approving officer prior to trading in the Company's securities; and
- notification of any share trading must be made in accordance with the Policy.

4.2 Hedging of Company securities

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

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

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

The Company Secretary or approving officer notifies all Directors and employees when a nominated period is available for dealing in the Company's securities and, when doing so, underlines the need for directors and employees to refer to the terms of the Share Trading Policy before undertaking any such dealings.

Further details are included on page 15 of this Annual Report.

5. Details of Directors' and senior executives' remuneration – Audited

5.1 Total remuneration paid or payable to Non-executive Directors

Total remuneration received by the Chairman and Non-executive Directors in the 2011 financial year was $227,300 (2010: $247,422). Payments and non-monetary benefits received by the Chairman and Non-executive Directors individually are set out in the following table:

	Short-term employee benefits	Post-employment benefits		
In AUD	Cash fees $	Company contributions to superannuation $	Share-based payments[a] $	Total $
Chairman				
Irene Lee				
2011	120,000	10,800	–	130,800
2010	120,000	10,800	4,447	135,247
Non-executive Directors				
Peter Wood[b]				
2011	43,625	3,825	–	47,450
Michael Perry[c]				
2011	22,500	2,025	–	24,525
2010	60,000	5,400	1,478	66,878
Cass O'Connor[c]				
2011	22.500	2,025	–	24,525
2010	32,725	2,945	–	35,670
Philip Lewis[d]				
2010	8,850	797	–	9,647
Total Chairman and Non-executive Directors				
2011	208,625	18,675	–	227,300
2010	221,575	19,942	5,925	247,442

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

(b) Appointed 14 October 2010.

(c) Resigned 15 September 2010.

(d) Resigned 25 May 2009.

5.1.1 Share-based payments to Non-executive Directors

No shares have been granted to the Chairman and Non-executive Director for the 2011 financial year. The Groups's Director and Employee Share Scheme has now been cancelled and all shares surrendered back to the Trustee of the Share Scheme due to expiration. The Chairman and Non-executive Director are not participants in any other share scheme conducted by Keybridge Capital.

5.2 Total remuneration paid or payable to senior executives

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

	Short-term employee benefits		Post-employment benefits				
In AUD	Cash salary $	Incentive and retention payments $	Company contributions to superannuation $	Share-based payments $	Total $	Proportion of remuneration performance related	Value of shares as a proportion remuneration %
Senior executives							
Mark Phillips, Managing Director							
2011[(a)]	539,770	440,000	15,199	224,400	1,219,369	54.5%	18.4%
2010[(b)]	536,871	–	13,129	131,482	681,482	19.3%	19.3%
Mark Worrall, Executive Director[(c)]							
2011	296,732	113,622	11,993	93,449	515,796	40.1%	18.1%
Adrian Martin, Company Secretary[(d)]							
2011	176,871	30,000	15,011	29,576	251,458	23.7%	11.8%
2010	44,509	17,500	3,282	17,894	83,185	42.5%	21.5%
Ian Pike, Chief Investment Officer[(e)]							
2010	184,162	–	5,471	–	189,633	–	–
Karen Penrose, Chief Financial Officer[(f)]							
2010	280,531	–	9,847	1,220	291,598	0.4%	0.4%
Totals							
2011	1,013,373	583,622	42,203	347,425	1,986,623	46.9%	17.5%
2010	1,046,073	17,500	31,729	150,596	1,245,898	13.5%	12.1%

(a) Includes deferred 2010 payments for incentive and retention payments that were not paid to the Managing Director.

(b) Restated – Payments for incentive and retention payments disclosed in the financial statements for 30 June 2010 were not paid to the Managing Director, but have been deferred following an amendment to his service agreement.

(c) Appointed Executive Director 16 September 2010.

(d) Appointed 1 April 2010.

(e) Resigned 11 December 2009.

(f) Resigned 31 March 2010.

Employee Equity Plan for 2011 financial year

As a result of the deferral of the Managing Director's 2010 incentive and retention payments, his performance rights were granted in October 2010 as per the terms of his amended Employment Contract. Other than Managing Director's allocation, no other shares have been granted for the 30 June 2011 financial year.

Details of the performance rights granted to senior executives during the 2011 financial year under the Employee Equity Plan are set out in the tables below.

Senior executives	Number of performance rights granted[(a)]	Fair value per performance right[(b)]	Maximum value of grant[(c)]
Current			
Mark Phillips, Managing Director	4,033,333	$0.10	$403,333

(a) In respect of the Managing Director, the performance rights were granted on 8 October 2010 following an amendment to his service agreement.

(b) The fair value was calculated on the price of the Company's shares at the grant dates.

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

Details of the performance rights granted to senior executives during the 2010 financial year under the Employee Equity Plan are set out in the tables below.

Senior executives	Number of performance rights granted[(a)]	Fair value per performance right[(b)]	Maximum value of grant[(c)]
Current			
Mark Worrall, Executive Director	1,375,000	$0.11	$151,250
Adrian Martin, Company Secretary	425,000	$0.12	$51,000
Total	1,800,000	–	$202,250

(a) The grants made to senior executives constituted their full entitlement for the 2010 and 2011 financial years and were made on 26 March 2010 (for Adrian Martin) and 29 May 2010 (for Mark Worrall) on the terms summarised above. In respect of the Managing Director, the performance rights were granted on 8 October 2010 following an amendment to his service agreement.

(b) The fair value was calculated on the price of the Company's shares at the grant dates.

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

Movement of performance rights

	Date of grant	Number of rights granted prior periods	Number of rights granted 2011	Total number of rights granted[1]	Vesting date[2]	Number of rights vested in 2011	Value ($) of rights vested[3]	Number of rights vested in 2010
Current								
Mark Phillips, Managing Director	8 Oct 2010	–	4,033,333	4,033,333	31 Aug 2011	–	–	–
Mark Worrall, Executive Director	29 May 2010	1,200,000	–	1,200,000	31 Aug 2011	–	–	–
Mark Worrall, Executive Director	29 May 2010	175,000	–	175,000	31 Aug 2010	175,000	16,450	–
Adrian Martin, Company Secretary	26 Mar 2010	250,000	–	250,000	31 Aug 2011	–	–	–
Adrian Martin, Company Secretary	26 Mar 2010	175,000	–	175,000	31 Aug 2010	175,000	16,450	–

1 No grants were forfeited during the financial year.

2 Performance rights vest subject to performance over the period from 1 July 2009 through to 31 August 2010 in respect of Year 1 and 1 July 2010 through to 31 August 2011 in respect of Year 2. Performance rights lapse where the service and performance conditions are not satisfied.

3 Shares were purchased on-market at an average share price of 9.4 cents and were issued in satisfaction of the vesting.

NON-AUDIT SERVICES

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

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

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

A copy of the Lead Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 95 and forms part of this Report.

During the year to 30 June 2011 the following fees were paid to the auditor of the Group, its related practices and non-related audit firms:

	2011 $	2010 $
KPMG		
Audit and review of financial reports	145,000	141,000
Regulatory audits	5,000	5,000
Tax services	45,730	28,000
Other non-audit services	–	–
	195,730	174,000

Rounding off

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

This Report is made in accordance with a Resolution of Directors.

Irene Lee
Chairman

Sydney, 11 August 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Note	2011 $'000	2010* $'000
Revenue and income			
Fees		966	1,074
Interest income	6	6,010	20,906
Net unrealised gain/(loss) on other investments		466	(90)
Other income	7	3,894	5,559
Operating income		11,336	27,449
Expenses			
Net impairment expenses	12	(16,071)	(25,433)
Unrealised loss on revaluation of foreign currency assets		(35,209)	(13,897)
Realised net foreign currency loss on foreign currency assets		(1,520)	(3,711)
Net unrealised loss on embedded derivatives		–	(7,759)
Administration expenses		(646)	(590)
Employment costs	8	(2,583)	(2,687)
Legal and professional fees		(1,112)	(1,188)
Other expenses		(202)	(192)
Results from operating activities		(46,007)	(28,008)
Net changes in fair value of cash flow hedges		(1,692)	(5,270)
Unrealised foreign exchange gain on foreign currency borrowings		22,866	6,773
Realised foreign currency gain on Euro currency borrowings		-	4,463
Finance costs		(11,144)	(15,586)
Net finance (costs)/income		10,030	(9,620)
Loss before income tax		(35,977)	(37,628)
Income tax (expense)/benefit	9	1,934	(12,305)
Loss for the period		(34,043)	(49,933)
Other comprehensive income, net of income tax			
Cash flow hedges			
Effective portion of changes in fair value		3,328	3,043
Net amount transferred to profit or loss		1,184	3,689
Other comprehensive income for the period, net of income tax		4,512	6,732
Total comprehensive loss for the period, net of income tax		(29,531)	(43,201)
		Cents	Cents
Basic loss (cents per share)	22	(19.78)	(29.02)
Diluted loss (cents per share)	22	(19.78)	(29.02)

** Restated to conform to the 2011 financial year presentation.*

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

	Share capital	Share based payment reserve $'000	Treasury share reserve $'000	Cashflow hedge reserve $'000	Retained earnings/ (losses) $'000	Total $'000
Balance at 1 July 2010	260,651	1,233	–	(4,512)	(178,718)	78,654
Total comprehensive income for the period						
Loss for the period	–	–	–	–	(34,043)	(34,043)
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	3,328	–	3,328
Net change in fair value of cash flow hedges transferred to profit and loss, net of tax	–	–	–	1,184	–	1,184
Total other comprehensive income	–	–	–	4,512	–	4,512
Total comprehensive income for the period	–	–	–	4,512	(34,043)	(29,531)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Own shares acquired	–	–	(184)	–	–	(184)
Shares issued to employees	–	(184)	184	–	–	–
Share based payments	–	508	–	–	–	508
Balance at 30 June 2011	260,651	1,557	–		(212,761)	49,447

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

	Share capital	Share based payment reserve $'000	Treasury share reserve $'000	Cashflow hedge reserve $'000	Retained earnings/ (losses) $'000	Total $'000
Balance at 1 July 2009	260,651	969	–	(11,244)	(128,785)	121,591
Total comprehensive income for the period						
Loss for the period	–	–	–	–	(49,933)	(49,933)
Other comprehensive income						
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	3,043	–	3,043
Net change in fair value of cash flow hedges transferred to profit and loss, net of tax	–	–	–	3,689	–	3,689
Total other comprehensive income	–	–	–	6,732	–	6,732
Total comprehensive income for the period	–	–	–	6,732	(49,933)	(43,201)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Own shares acquired	–	–	–	–	–	–
Shares issued to employees	–	–	–	–	–	–
Share based payments	–	264	–	–	–	264
Balance at 30 June 2010	260,651	1,233		(4,512)	(178,718)	78,654

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Note	2011 $'000	2010 $'000
Cash and cash equivalents	10(a)	5,040	6,136
Trading and other receivables		273	543
Loans and receivables – net	12	17,335	40,075
Other investments	13	1,456	990
Other assets		61	54
Total current assets		24,165	47,797
Loans and receivables – net	12	126,105	184,646
Property, plant and equipment	11	259	387
Total non-current assets		126,364	185,033
Total assets		150,529	232,830
Payables	16	1,373	4,302
Loans and borrowings	17	99,709	145,120
Derivative liabilities	18	–	4,754
Total current liabilities		101,082	154,176
Total liabilities		101,082	154,176
Net assets		49,447	78,654
Equity			
Share capital	19	260,651	260,651
Reserves	20	1,557	(3,279)
Retained earnings/(losses)		(212,761)	(178,718)
Total equity attributable to equity holders of the Company		49,447	78,654

The Consolidated Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	Note	2011 $'000	2010* $'000
Cash flows from operating activities			
Fees received		1,141	148
Interest received		5,761	9,220
Payments to suppliers and employees		(4,028)	(4,277)
Interest payment on loan facility		(10,862)	(14,354)
Net income tax paid		–	(159)
Other income	7	3,894	5,559
Net cash used in operating activities	10(b)	(4,094)	(3,863)
Cash flows from investing activities			
Loans and receivables, advances and acquisitions of other instruments		(75)	(2,404)
Proceeds from sale/repayments of loan and receivables		29,159	61,735
Net cash from investing activities		29,084	59,331
Cash flows from financing activities			
Purchase of shares for employee equity plan		(184)	–
Repayment of loans and borrowings		(25,602)	(58,743)
Net cash from/(used) in financing activities		(25,786)	(58,743)
Net decrease in cash and cash equivalents		(796)	(3,275)
Cash and cash equivalents at 1 July		6,136	9,615
Effect of exchange rate fluctuations on cash held		(300)	(204)
Cash and cash equivalents at 30 June	10(a)	5,040	6,136

** Restated to conform to the 2011 financial year presentation. The restatement was to reclass a repayment of a loan and receivable as other income for the 2011 financial year.*

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements.

Notes to the Financial Statements

For the year ended 30 June 2011

1. REPORTING ENTITY

Keybridge Capital Limited (referred to as "Keybridge Capital" or the "Company") is a company incorporated and domiciled in Australia. The Consolidated Financial Statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities.

The consolidated annual Financial Statements as at and for the year ended 30 June 2011 are available upon request from the Company's registered office at Level 26, 259 George Street, Sydney NSW 2000 or at www.keybridge.com.au.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Consolidated Financial Statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Consolidated Financial Statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The Consolidated Financial Statements were approved by the Board of Directors on 11 August 2011.

(b) Going concern

Over the past twelve months, the Group has been able to bring forward the realisation of some of its loans and receivables. The pace of repayments has slowed as a result of the remaining loans and receivables being more difficult to realise. In particular over 65% of the remaining portfolio consists of aviation and shipping loans. Secondary markets for the securities underlying the loans still tend to be affected by a lack of senior debt and by depressed secondary market pricing. Realising Keybridge's loans and receivables in these sectors in the shorter term at acceptable prices remains impractical.

Our expectation is that the realisation of these aviation and shipping loans will occur over a period of approximately two to three years. In the meantime, the Group's focus will be on achieving improved operational cash flow from these transactions, along with taking steps to protect existing carrying values. The Group's ability to service its loan commitments and repay principal is dependent upon its ability to realise sufficient repayments from its portfolio of loans, receivables and investments.

In the second half of the 2011 financial year the Company completed the refinance of its corporate debt facility. The facility has been extended to 2 June 2012. The revised terms include a minimum repayment obligation of $12.5 million for the period from 31 December 2010 to 2 December 2011. The Company has made repayments of approximately $9.4 million since 31 December 2010 to the date of this report. The Company expects to meet its repayment obligations of a further $3.1 million, with realisations from loans and receivables in Aviation and Lending.

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

As at the 30 June 2011, the Group has net current liabilities of $76,917,000 and the Directors acknowledge that before maturity of the corporate borrowings on 2 June 2012, the Company expects to seek to extend the existing lending arrangements or to refinance outstanding borrowings at that time.

Subsequent to year end the Group has executed contracts for the repayment of one of its aviation loans. This repayment is expected to provide the Group with no less than USD45.0 million of net proceeds upon settlement in October 2011, which the Group will use to repay, a substantial amount of the outstanding debt facility portion of its current liabilities.

The Company remains focused on achieving further reductions in its corporate borrowings ahead of the refinancing date of 2 June 2012. The Company anticipates commencing discussions with its lenders for the refinance of its corporate debt facility nearing the end of the first half of the 2012 financial year.

2. BASIS OF PREPARATION *(continued)*

At this time there remains a risk that the Company may be unable to refinance the corporate borrowings before 2 June 2012.

The Directors continue to acknowledge that realising the remaining loans and receivables will take time given currently depressed secondary market prices. However, having regard to, amongst other things, cash flow forecasts over the term of the Group's corporate borrowings, including the Group's anticipated loan realisation over the next 12–18 months, the Directors have reached the conclusion that, based on all relevant facts, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable and is a going concern. This is confirmed in the Director's Declaration on page 94 of this Annual Report.

(c) Basis of measurement

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

- other investments; and
- embedded derivatives.

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

(d) Functional and presentation currency

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

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

(e) Use of estimates and judgements

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

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

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

- Note 12: Loans and receivables.
- Note 13: Other investments.
- Note 15: Deferred tax assets and liabilities.
- Note 23: Financial risk management – impairment losses.

For further detail on estimates refer to Notes 12, 13, 15 and 23.

(f) Changes in accounting policies

Removal of parent entity financial statements

The Group has applied amendments to the *Corporations Act 2001* that removes the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in Note 31.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Certain comparative amounts have been reclassified to conform with the current year's presentation (see Note 5 and Note 15). In addition, the comparative Consolidated Statement of Cash Flows has been represented to reclass a repayment of a loan and receivable as other income.

(a) Basis of consolidation

(i) Subsidiaries

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are initially recognised at cost. The cost of the investment includes transaction costs.

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

(iii) Transactions eliminated on consolidation

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

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

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Foreign currency transactions

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

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

Foreign currency losses on foreign assets are recognised as an expense in the Consolidated Statement of Comprehensive Income.

(c) Financial instruments

(i) Non-derivative financial instruments

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

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

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

The Group has the following non-derivative financial assets: Financial assets at fair value through profit or loss and loans and receivables.

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

Accounting for interest income and borrowings costs is discussed in Notes 3(g) and 3(h).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available-for-sale.

Changes in the fair value of financial assets at fair value through profit and loss is recongised in revenue.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured using the effective interest method, less any impairment losses. The collectability of debts is assessed at reporting date and where required specific provision is made for any doubtful debts or on a collective basis for a portfolio of loans considered collectively impaired. Refer to Note 3(d).

Loan write-offs

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

Other financial liabilities

The Group initially recognises other financial liabilities on the date that they are originated, which is the date the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group classified non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise loans and borrowings and trade payables.

(ii) Derivative financial instruments

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

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

Cash flow hedges

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Hedge effectiveness testing

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

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

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

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

Separable embedded derivatives

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

(iii) Share capital

Ordinary shares

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

Dividends

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

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for treasury shares net of any tax effects.

When the Group repurchases shares to provide shares to employees under the Employee Equity Plan, when the shares are assigned to employees the cost of these shares are transferred to the share-based payment reserve.

(d) Impairment of financial assets

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

The Group considers evidence of impairment for loans and receivables at a specific asset level. All loans and receivables are assessed for specific impairment.

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

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

Future cash flows for loans and receivables in the shipping and infrastructure segments have taken into account longer term market indicators, such as future shipping charter rates and future energy prices. The reason for the longer term market indicators being used is due to the fact that financial assets are not expected to be realised over the short term. Individually significant financial assets are tested for impairment on an individual basis.

All impairment losses are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

(ii) Depreciation

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

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

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

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

(f) Employee benefits

(i) Short term benefits

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

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

(ii) Retirement benefit obligations

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

(iii) Share-based payment transactions

The fair value of performance rights granted to employees in relation to the Employee Equity Plan is measured at grant date and is recognised as an employee expense, with a corresponding increase in equity, over the period in which the performance rights vest. The grant date is defined as the date when the Company and employee have a shared understanding of the terms and conditions.

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

(g) Fees and interest income

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset to the carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The Group receives fees for such services as loan extensions or debt facility management. Fees that are integrated in the effective yield of the financial assets are included in the measurement of the effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Finance income and finance costs

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

(i) Income tax

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

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

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

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

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

(i) Tax consolidation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

(j) Goods and services tax

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

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

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

(k) Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(l) Segment reporting

Determination and presentation of operating segments

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

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

The Group comprises the following main operating segments:

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

(m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these Consolidated Financial Statements. None of these is expected to have a significant effect on the Consolidated Financial Statements of the Group, except for AASB 9 Financial Instruments, which becomes mandatory for the Group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

4. DETERMINATION OF FAIR VALUES

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

4. DETERMINATION OF FAIR VALUES *(continued)*

(i) Financial derivatives

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

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

(ii) Non-derivative financial liabilities

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

(iii) Loans and receivables

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

(iv) Embedded derivatives

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

(v) Equity securities

The fair value of equity securities is determined by reference to their quoted closing bid price at the reporting date.

(vi) Share-based payment transactions

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

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

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

5. OPERATING SEGMENTS

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

- *Aviation:* Comprise loans to aviation leasing companies that are supported by aircraft that are leased for medium terms to airlines.
- *Lending:* Senior secured loans and subordinated loans to entities in a range of industries. It also includes investments in US Securitisations which have had a book value of nil since 30 June 2008.
- *Property:* Includes loans to property developers that are supported by development and construction projects and other property related investments. The property projects underlying the Group's loans are predominantly residential, commercial and industrial projects located in Australia.
- *Shipping:* Loans to shipping companies and equity investments in ships and shipping portfolios chartered for medium terms to shipping companies.
- *Infrastructure:* Loans and equity investments in renewable energy projects.

The lending and other segments were combined in the year ending 30 June 2011 as a result of the Group's Managing Director reviewing the lending and the other segments as one segment.

5. OPERATING SEGMENTS *(continued)*

There is no integration between any of the reportable segments.

Information regarding the results of each reportable segment is included in this note. Performance is measured based on operating income less net impairment expense, unrealised losses on embedded derivatives and other assets and foreign exchange losses as included in the internal management reports that are reviewed by the Group's Managing Director. Segment results is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other segments within the Group's loans and investments. This allows management to determine where to best allocate the Group's resources as well as enabling the evaluation of the results to other lenders in the different industries.

5. OPERATING SEGMENTS *(continued)*

	Aviation		Lending		Property		Shipping		Infrastructure		Consolidated	
	2011 $'000	2010 $'000	2011 $'000	2010* $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Operating income												
Fees	–	25	866	914	–	–	91	85	9	50	966	1,074
Interest income	2,215	13,815	2,753	2,975	132	835	–	753	702	2,377	5,802	20,755
Unrealised gain/(loss) embedded derivatives and other investments	466	(90)	–	–	–	–	–	–	–	–	466	(90)
Other income	–	–	3,894	5,893	–	–	–	–	–	(334)	3,894	5,559
Total operating income	2,681	13,750	7,513	9,782	132	835	91	837	711	2,093	11,128	27,298
Unrealised loss on revaluation of foreign currency assets, net changes in fair value of cash flow hedges and realised foreign exchange gain on disposal of investments	(28,085)	(10,246)	(3,690)	(1,272)	(457)	(1,588)	(5,204)	(3,198)	(716)	(6,367)	(38,152)	(22,671)
Unrealised gain/(loss) embedded derivatives and other investments	–	(7,789)	–	20	–	–	–	–	–	–	–	(7,769)
Less impairments	(14,571)	(3,930)	–	–	(1,490)	(8,677)	(12,249)	(17,393)	(2,255)	(2,379)	(30,564)	(32,379)
Add: Reversed impairments	–	4,403	5,579	72	8,913	–	–	1,301	–	1,170	14,493	6,946
Reportable segment loss before income tax	(39,975)	(3,812)	9,403	8,603	7,098	(9,430)	(17,361)	(18,452)	(2,260)	(5,483)	(43,096)	(28,575)

* The lending and other segments were combined in the year ending 30 June 2011 as a result of the Group's Managing Director reviewing the lending and the other segments as a single segment result. The comparative 2010 segment result has been restated to be consistent with this change.

Business segments	Aviation		Lending		Property		Shipping		Infrastructure		Consolidated	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Gross Segment assets	103,176	139,818	33,219	38,330	11,099	19,716	29,123	37,323	11,832	12,850	188,450	248,037
Less impairment provisions	(17,276)	(3,814)	(279)	(369)	(1,490)	(5,227)	(19,904)	(9,961)	(4,352)	(2,299)	(43,301)	(21,670)
Net Segment assets	85,900	136,004	32,940	37,961	9,609	14,489	9,220	27,362	7,480	10,551	145,149	226,367

Geographic segments	Australia		United States		Spain*		Cyprus		Other Regions		Consolidated	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Operating income	6,219	15,654	4,198	8,761	711	2,286	–	469	–	128	11,128	27,298
Less: Impairment expense	(443)	(12,430)	(8,053)	(4,603)	(2,255)	(383)	(5,320)	(1,059)	–	(6,958)	(16,071)	(25,433)
Less: Unrealised loss on revaluation of foreign currency assets, net changes in fair value of cash flow hedges and realised foreign exchange gain on disposal of investments	(15,761)	(5,153)	(17,874)	(9,468)	(716)	(4,668)	(3,801)	(1,365)	–	(2,016)	(38,152)	(22,671)
Unrealised gain/(loss) embedded derivatives and other investments	–	–	–	(7,769)	–	–	–	–	–	–	–	(7,769)
Segment result	(9,986)	(1,929)	(21,729)	(13,079)	(2,260)	(2,765)	(9,121)	(1,955)	–	(8,846)	(43,096)	(28,575)
Segment assets	79,238	106,948	49,234	89,862	7,480	10,551	9,197	19,005	–	–	145,149	226,367

** Spain, Cyprus and Other Regions were combined in the financial statements for the year ending 30 June 2010. The comparative segment result has been restated to conform with the 2011 year presentation.*

Geographic segments are determined by the location or by the security of the counterparties to the loan and investment depending on the operating segment of the loan and investment. Aviation, Lending, Property and Shipping loans are allocated to the geographic segments based on the location of the counterparty to the loan. The two remaining loans in Aviation are included in United States and Australia. For the portfolio in the Lending operating segment 78% of the portfolio is domiciled in Australia with the remainder being in the United States. All Property transactions are now located in Australia, whereas in 2010 there were some transactions in the United States. In Shipping, the remaining transactions are included in the Cyprus segment, this being the location of the Group's counterparty.

Infrastructure loans and investments are determined by the location of the security of the loan or investment. Spain is the location of the remaining infrastructure transaction. In the 2010 comparatives, Other Regions contained two investments, one being a shipping fund located in Hong Kong that and the other a German wind farm both of which has since been repaid. The 2010 comparatives have been restated to conform to the 2011 current year presentation.

Major customer

Operating income from one customer of the Group's Aviation segment represents approximately $2.2 million (2010: operating income from two customers of the Group's Aviation segment $12.6 million), operating income from one customer of the Group's Lending segment represents approximately $3.0 million (2010: $2.5 million) and operating income from one customer of the Group's Infrastructure segment represents approximately $0.7 million (2010: nil) of the Group's total operating income.

5. OPERATING SEGMENTS *(continued)*

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

	2011 $'000	2010* $'000
Operating income		
Total operating income for reportable segments	11,128	27,298
Bank interest received	208	151
Consolidated operating income	11,336	27,449
Profit or loss		
Total profit or loss for reportable segments	(43,096)	(28,575)
Other profit or loss	(60)	(46)
Unallocated amounts: Other corporate expenses	(4,542)	(4,657)
Unallocated amounts: Net finance costs	11,722	(4,350)
Consolidated loss before income tax	(35,977)	(37,628)
Assets		
Total assets for reportable segments	145,149	226,367
Other unallocated amounts	5,380	6,463
Consolidated total assets	150,529	232,830
Liabilities		
Total liabilities for reportable segments	–	–
Other unallocated amounts	101,082	154,176
Consolidated total liabilities	101,082	154,176

** Restated to conform to the 2011 financial year presentation.*

6. REVENUE

	2011 $'000	2010 $'000
Interest income on bank deposits	208	151
Interest on loans and advances – third parties	5,802	20,755
	6,010	20,906

There is no accrued income on impaired financial assets for the year ended 30 June 2011 (2010: $2.7 million).

7. OTHER INCOME

	2011 $'000	2010 $'000
Investment realisations	3,894	5,559
	3,894	5,559

The investment realisations include a gain on the sale of units in a fund which had an interest in a goldmine in Chile and a settlement. Keybridge has had discussions with an investment bank through which it acquired in 2006 and 2007 certain investments. These discussions have resulted in Keybridge and the investment bank coming to a settlement, the terms of which are confidential and cannot be disclosed.

8. EMPLOYMENT COSTS

	2011 $'000	2010 $'000
Wages and salaries	1,838	2,285
Superannuation	149	136
Other associated personnel expenses	88	1
Expenses related to the Employee Share Scheme	508	265
	2,583	2,687

9. INCOME TAX EXPENSE

(a) Income tax recognised in profit or loss

	2011 $'000	2010* $'000
Current tax (expense)/benefit		
Current period	1,537	39,083
Adjustment for prior periods	–	584
Total current tax	1,537	39,667
Deferred tax (expense)/benefit		
Offer costs	(465)	(464)
Unrealised FX gains and losses	6,891	1,959
Unrealised gain/(loss) on other investments	(140)	27
Loans and receivables	6,490	6,129
Other	(173)	(572)
Decrease in deferred income tax expense from timing differences	12,603	7,079
Increase in deferred income tax expense from tax losses not recognised	(1,537)	(57,849)
Increase in deferred income tax expense from timing differences not recognised	(12,603)	(4,087)
Reversal of income tax recognised in other comprehensive income for which no deferred tax asset was recognised	1,934	2,885
Total income tax (expense)/benefit	1,934	(12,305)

** Restated to conform to the 2011 financial year presentation.*

9. INCOME TAX EXPENSE *(continued)*

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

	2011 $'000	2010* $'000
Loss for the period	(34,043)	(49,933)
Total income tax (expense)/benefit	1,934	(12,305)
Loss before income tax	(35,977)	(37,628)
Prima facie income tax calculated at 30% (2010: 30%)	10,793	11,288
Non-deductible expenses	(98)	(79)
Tax exempt income	2,395	308
Current year losses for which no deferred tax asset was recognised	(1,537)	(39,083)
Prior year losses for which no deferred tax asset was recognised	–	(18,766)
Change in unrecognised temporary differences	(12,603)	(4,087)
Other deductible expenses	1,050	35,229
Reversal of income tax recognised in other comprehensive income for which no deferred tax asset was recognised	1,934	2,885
Total income tax (expense)/benefit	1,934	(12,305)

** Restated to conform to the 2011 financial year presentation.*

(c) Income tax recognised in other comprehensive invoice

	2011 $'000	2010 $'000
Gain/(loss) on cash flow hedging instruments	1,934	2,885
	1,934	2,885

The 2010 prior period comparatives have been restated for the disclosure of income tax expense. The restatement has had no effect on the total current tax disclosed in the 2010 financial year. The nature of the prior period's restatements impacted the note Reconciliation of deferred tax benefit or expense. Individual line items were not correctly recognised in the 2010 financial year. These items included timing differences associated with impairments on Loans and Receivables, which were excluded from the calculations incorrectly.

This restatement does not impact the Group's Statement of Financial Position, as the total income tax benefit or expense disclosed had not changed. The restatements have also impacted the note disclosure of the Reconciliation between tax-expense and pre-tax net. This restatement does not impact prior periods reported basic and diluted earnings per share.

For further details of tax losses not recognised refer to Note 15 Deferred Tax Assets and Liabilities.

10. CASH AND CASH EQUIVALENT

(a) Cash and cash equivalents

	2011 $'000	2010 $'000
Cash at bank	798	2,628
Term deposits	73	67
Short term deposits	4,169	3,441
	5,040	6,136

(b) Reconciliation of cash flow

	2011 $'000	2010* $'000
Cash flows from operating activities		
Profit/(loss) for the period	(34,043)	(49,933)
Adjustments for:		
Depreciation	129	128
Change in fees accrued	175	(925)
Unrealised loss on embedded derivatives	–	7,759
Changes in interest accrued	(249)	(11,686)
Unrealised (gain)/ loss on other investments	(466)	90
Foreign exchange losses on foreign currency assets	36,729	17,608
Impairment expenses	16,071	25,433
Share-based payment expense	508	815
Net finance costs	(10,030)	9,620
Tax expense/(benefit)	(1,934)	12,305
Operating cash flow before changes in working capital and provisions	6,890	11,214
Increase/(decrease) in payables	(385)	(374)
(Increase)/decrease in other assets	(7)	26
(Increase)/decrease in trade and other receivables	270	(216)
	6,767	10,650
Interest paid	(10,862)	(14,354)
Income taxes paid	–	(159)
Net cash from operating activities	(4,094)	(3,863)

** Restated to conform to the 2011 financial year presentation.*

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements $'000	Office equipment $'000	Furniture and fittings $'000	Computer software $'000	Computer hardware $'000	Total $'000
Cost or deemed cost						
Balance at 1 July 2009	318	63	151	147	76	755
Additions	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Balance at 30 June 2010	318	63	151	147	76	755
Cost or deemed cost						
Balance at 1 July 2010	318	63	151	147	76	755
Additions	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Balance at 30 June 2011	318	63	151	147	76	755
Depreciation and impairment losses						
Balance at 1 July 2009	60	39	32	67	41	239
Depreciation for the year	36	18	18	34	22	129
Disposals	–	–	–	–	–	–
Balance at 30 June 2010	96	57	50	101	63	368
Balance at 1 July 2010	96	57	50	101	63	368
Depreciation for the year	44	5	28	39	13	129
Disposals	–	–	–	–	–	–
Balance at 30 June 2011	140	62	78	140	76	496
Carrying amounts						
At 30 June 2010	222	6	101	46	13	387
At 30 June 2011	178	1	73	7	0	259

12. LOANS AND RECEIVABLES

	2011 $'000	2010 $'000
	Carrying amounts	
Individually impaired loans (gross)	172,342	155,883
Less: Allowance for impairment	(43,301)	(21,669)
Carrying amount	129,041	134,215
Loans not individually impaired	14,399	90,506
Carrying amount	14,399	90,506
Total carrying amount of loans and receivables	143,440	224,721
Current assets		
Aviation	3,664	–
Lending	13,671	28,695
Property	–	16,607
Shipping	–	–
Infrastructure	–	–
Less: Allowance for impairment expenses	–	(5,227)
	17,335	40,075
Non-current assets		
Aviation	98,056	138,828
Lending	19,321	9,007
Property	11,099	3,109
Shipping	29,102	37,298
Infrastructure	11,828	12,847
Less: Allowance for impairment expenses	(43,301)	(16,443)
	126,105	184,646

	2011 $'000	2010 $'000
	Impairment provisions	
Income statement charge		
Loan impairment expenses		
Reversal of allowances no longer required	(14,493)	(6,946)
New allowances	30,564	32,379
Total recognised in income statement	16,071	25,433

13. OTHER INVESTMENTS

	2011 $'000	2010 $'000
Shares in ASX-listed company	1,456	990
	1,456	990

14. EQUITY ACCOUNTED INVESTMENTS IN ASSOCIATES

The Group's share of net loss in its equity accounted investments in associates for the year ended 30 June 2011 was $0.7 million loss (2010: $3.8 million loss). The loss relates to the Group's three equity accounted investments, being Bridge Infrastructure Capital Pty Limited (BIC), Oceanic Shipping Company VIII Limited and Ocean Star Limited. This accounting loss was not recognised in the results for the year ended 30 June 2011, as the investment in associates was reduced to nil in the financial year ended 30 June 2009.

In prior years the Group advanced two loans to BIC; a loan to Oceanic Shipping Company VIII Limited and a loan to Ocean Star Limited. The Group has recognised impairments against one loan in infrastructure and three loans in shipping. As at 30 June 2011, the Group's carrying amount in the loans to associates totals $16.6 million (2010: $37.9 million) and is recognised in Loans and Receivables. The Group has no additional commitments as a result of the associate's equity being negative.

	2011 $'000	2010 $'000
Investments in associates	–	–
Additional investment made by way of loans	40,894	49,994
Less impairments	(24,256)	(12,081)
Carrying amount of loans to associates	16,638	37,913
Impairment expense	14,504	11,253

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

	Assets $'000	Liabilities $'000	Net assets $'000	Revenues $'000	Expenses $'000	Net profit or (loss) $'000	Profit share $'000
2011							
Associates	141,510	(159,628)	(18,118)	26,781	(27,087)	(306)	(703)
2010							
Associates	183,868	(199,217)	(15,349)	32,154	(36,802)	(4,648)	(3,868)

The two loans to BIC are provided at a lower rate of interest, compared to prevailing market rates for similar type of loans. These loans originally have a 10-year maturity, expiring in 2017 and are non-secured subordinated loans. One loan is denominated in US Dollars and the other loan is denominated in Euro. Both the remaining two loans have been impaired. A repayment of $0.1 million was received during the year for one of the loans.

14. EQUITY ACCOUNTED INVESTMENTS IN ASSOCIATES *(continued)*

Loans to two shipping leasing companies, Oceanic Shipping Company VIII Limited and Ocean Star Limited have an original 5-year maturity expiring in March 2013 and September 2013 respectively, and are both unsecured. Both loans are provided at a lower rate of interest, compared to prevailing market rates for similar type of loans. Both loans are denominated in US Dollars and both have been impaired. A repayment of $0.7 million was received during the year for one of the loans.

15. DEFERRED TAX ASSETS AND LIABILITIES

At 30 June 2011 a deferred tax benefit of $59.3 million (2010: $57.8 million) mostly related to prior year impairment expenses now being written-off and recognised as a tax deduction and temporary differences of $11.6 million (2010: $0.9 million) was not recognised as deferred tax assets. The deferred tax assets will only be realised when sufficient future assessable income is earned.

Unrecognised deferred tax assets

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

	2011 $'000	2010* $'000
Deductible temporary differences	11,647	978
Tax losses	59,385	57,849
	71,032	58,827

** Deductible temporary differences restated, refer below for details.*

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

The 2010 prior period comparatives have been restated for the disclosure of unrecognised timing differences. The restatement has had the effect of decreasing the amount of deductible temporary differences recognised in 2010 financial year from $5.3 million to $1.0 million. The nature of the prior period's restatements related to temporary differences which were not correctly recognised in the 2010 financial year. This included timing differences associated with impairments on Loans and Receivables, which were excluded from the calculations incorrectly.

This restatement does not impact the Group's Statement of Financial Position, as it is previously mentioned the Group is not currently recognising either deferred tax assets or liabilities. The restatements impact the disclosure of the reportable temporary differences and the associated tables which include both Recognised tax assets and liabilities and Movement in temporary differences during the year. This restatement does not impact prior periods reported basic and diluted earnings per share.

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

Recognised tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011	2010*	2011	2010*	2011	2010*
Loans and receivables	12,990	6,501	-	-	12,990	6,501
Other investments	–	–	(152)	(12)	(152)	(12)
Derivatives and unrealised foreign exchange	–	1,934	(1,276)	(8,167)	(1,276)	(6,233)
Loans and borrowings	55	227	–	–	55	227
Other	30	30	–	–	30	30
Capitalised – issuance costs	–	465	–	–	–	465
Total assets/(liabilities)	13,075	9,157	(1,428)	(8,179)	11,647	978
Less: Deferred tax asset not recognised	(11,647)	(978)	–	–	(11,647)	(978)
Less: Set off of tax	(1,428)	(8,179)	1,428	8,179	–	–
Net tax assets/(liabilities)	–	–	–	–	–	–

** 2010 prior periods comparatives for deductible temporary differences restated, refer above for details.*

Deferred tax assets have been recognised to the extent that it is probable that taxable temporary differences will be available against which the deductible temporary difference can be utilised. The deferred tax assets and deferred tax liabilities have been offset to the extent that the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

Movement in temporary differences during the year

	Balance at 30 June 2009	Recognised in profit or loss*	Recognised in other comprehensive income	Balance at 30 June 2010*	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 30 June 2011
Loans and receivables	372	6,129	–	6,501	6,489	–	12,990
Other investments	(39)	27	–	(12)	(140)	–	(152)
Derivatives	(5,307)	1,959	(2,885)	(6,233)	6,891	(1,934)	(1,276)
Loans and borrowings	1,276	(1,049)	–	227	(172)	–	55
Capitalised – issuance costs	929	(464)	–	465	(465)	–	–
Other items	(447)	477	–	30	–	–	30
Total	(3,216)	7,079	(2,885)	978	12,603	(1,934)	11,647

** 2010 prior periods comparatives for deductible temporary differences restated, refer above for details.*

16. PAYABLES

	2011 $'000	2010 $'000
Loan facility interest expense	–	1,606
Employment related expenditure	757	563
Professional fees payable	314	523
Other fees payable	120	58
Bank debt fees payable	182	1,552
	1,373	4,302

17. LOAN AND BORROWINGS

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

The loan was amended during the year.

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

- denominated in US Dollars;
- maturity date of 2 June 2012;
- cash sweep is to be maintained as per current arrangements, with all surplus cashflow being used to make repayments to the banks;
- minimum principal repayments of $12.5 million are required in the period from 31 December 2010 to 2 December 2011, of which $3.1 million remains to be met at the date of this report;
- margin above LIBOR continues to be 3.75% per annum; and
- in addition to the Margin, since December 2009, there has been an additional fee accruing under the facility equal to 1.75% per annum. Upon execution of documentation for the extension, the accrued amount of this fee of $3.1 million was capitalised into the aggregate debt amount. From that time, the fee will accrue at a reduced rate of 1.50% per annum. New accruals of this fee will be waived, however, if debt repayments in the period from 31 December 2010 to 2 December 2011 reach certain levels:

Repayments in the period from 31 December 2010–2 December 2011	Amount of new fee waived
$15.0 million	0.50%
$17.5 million	1.00%
$20.0 million	1.50%*

** that is, if $20.0 million of repayments are achieved, new accruals of the additional fee will be waived in full.*

The additional fee that is being accrued under the amended agreement is payable on maturity of the loan.

Refer to Note 23 for further information about exposure to financial risks and liquidity.

	2011 $'000	2010 $'000
Current liabilities		
Secured bank loans	99,709	145,120
	99,709	145,120

17. LOAN AND BORROWINGS *(continued)*

				30 June 2011		30 June 2010	
	Currency	Nominal interest rate	Year of maturity	Face value $'000	Carrying amount $'000	Face value $'000	Carrying amount $'000
Secured bank loan	AUD	–	2012	–	–	27,111	27,111
Secured bank loan	USD	3.91%	2012	99,709	99,709	118,009	118,009
Total interest-bearing liabilities				99,709	99,709	145,120	145,120

The nominal interest rates relate to the prevailing floating base interest rate at 30 June 2011. The margin on the Group's secured bank loans is 3.75% per annum. The Group has also entered into interest rate hedging arrangements. Refer to Note 23 – Interest Rate Risk for further information.

18. DERIVATIVE LIABILITIES

	2011 $'000	2010 $'000
Current liabilities		
Interest rate swaps	–	4,754
	–	4,754

As at 30 June 2011, the Group's remaining interest rate swaps had matured. Previously, the Group used interest rate swaps to hedge variable rate loans to fixed rates of interest. These were designated as cash flow hedges.

19. CONTRIBUTED EQUITY

(a) Issued and paid-up capital

	2011 $'000	2010 $'000
172,070,564 (30 June 2010: 172,070,564) ordinary shares fully paid	260,651	260,651

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

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

The Company does not have par value in respect of its issued shares.

(b) Movement in ordinary share capital

	2011 $'000	2010 $'000
Opening balance 1 July	260,651	260,651
Closing balance 30 June	260,651	260,651

(c) Shares issued not paid

There are 5,975,000 issued shares which related to the Company's Director and Employee Share Scheme. The Company's Director and Employee Share Scheme has now been cancelled due to all grants expiring and all shares surrendered back to the Trustee of the Share Scheme.

There are no other shares issued and not paid.

20. RESERVES

	2011 $'000	2010 $'000
Treasury share reserve	–	–
Cash flow hedge reserve, net of tax	–	(4,512)
Share-based payment reserve, net of tax	1,557	1,233
	1,557	(3,279)

Share-based payment reserve

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

Cash flow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to foreign exchange contracts and interest rate swaps.

Treasury share reserve

The treasury share reserve comprises the cost of shares purchased on-market for the settlement of awards under the Employee Equity Plan.

The Group's Share Scheme Trust holds 5,975,000 shares at balance date (2010: 5,975,000).

21. DIVIDENDS

There were no dividends paid or declared during the year by the Company (2010: nil).

After 30 June 2011, the Directors have resolved not to declare a final dividend for the 2011 financial year.

in AUD	2011 $'000	2010 $'000
Dividend franking account	–	–
30 per cent franking credits available to shareholders of Keybridge Capital for subsequent financial years	–	–

22. EARNINGS PER SHARE

Basic loss per share

The calculation of basic loss per share at 30 June 2011 was based on the loss attributable to ordinary shareholders of $34.0 million (2010: $49.9 million) and a weighted average number of ordinary shares outstanding of 172.1 million (2010: 172.1 million) calculated as follows:

	2011 $'000	2010 $'000
Loss attributable to ordinary shareholders		
Net loss attributable to ordinary shareholders	(34,043)	(49,933)

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

Diluted loss per share

The calculation of diluted loss per share at 30 June 2011 was based on loss attributable to ordinary shareholders of $34.0 million (2010: $49.9 million) and a weighted average number of ordinary shares outstanding after adjusting for the effects of all dilutive potential ordinary shares of 172.1 million (2010: 172.1 million) calculated as follows:

	2011 $'000	2010 $'000
Loss attributable to ordinary shareholders		
Net loss attributable to ordinary shareholders	(34,043)	(49,933)

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

23. FINANCIAL RISK MANAGEMENT

The Group seeks to minimise the effects of financial risks arising in the normal course of the Group's business. The markets, in which the Group has invested, on the whole, remained subdued for the majority of the 2011 financial year. Approximately two-thirds of the Group's remaining loan and investment portfolio is in the aviation and shipping sectors, where secondary markets are still affected by a lack of senior debt and by asset prices that have not recovered sustainably from the effects of the recent global financial crisis. This continues to impact negatively on the value and liquidity of the Group's loans and investments and heightened the Group's exposure to financial risks including credit risk, liquidity risk, foreign currency risk and interest rate risk.

Financial risk management is undertaken by management under policies approved by the Board. During the 12 months to 30 June 2011 management continued to monitor the Group's policies and sought Board approval for any necessary changes to actively manage the financial health of the Group and to facilitate the Board's decision not to make new investments and to achieve an orderly realisation of loans and investments.

The policies are available on the Company's website at www.keybridge.com.au. The Group's policies are discussed in further detail under Corporate Governance on pages 9 to 21 of this Annual Report.

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

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

Impairment losses

The continued slow recovery of the markets in which the Group operates being characterised by ongoing restrictions in the availability of senior bank debt and low levels of market liquidity, has inhibited the ability to sell or settle loans at acceptable prices in the short term and placed greater financial pressure on lessee and borrower counterparties. In this environment, the Group has focused on achieving the realisation of loans and investments over the medium term as markets stabilise. These factors are responsible for the Group's assessment of further net impairment losses of $16.1 million for the 2011 financial year (2010: $25.4 million).

During the year ended June 2011 the Group assessed the recoverability of the impairment provisions that had been recognised in June 2009 and 2010 and where it was deemed that a future repayment of an impaired loan was likely, then the impairment has been written-back.

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

	Gross	Impairment	Gross	Impairment
	2011 $'000	2011 $'000	2010 $'000	2010 $'000
Not past due	169,629	(41,811)	208,428	(16,442)
Past due 180–365	1,490	(1,490)	–	–
More than one year	15,622	–	37,962	(5,227)
	186,741	(43,301)	246,390	(21,669)

23. FINANCIAL RISK MANAGEMENT *(continued)*

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

	Loans and receivables	
	2011 $'000	2010 $'000
Balance at 1 July	21,669	133,380
Impairment loss recognised	30,564	32,379
Impairment write-back in income statement	(14,493)	(6,946)
Foreign exchange movement on impairments	(3,075)	–
Loans realised/(written off)	9,266	(137,144)
Balance at 30 June	43,301	21,669

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

In Aviation, the impairment has been recorded as specific impairments against both loans. One loan reflects the diminution of aircraft values within the portfolio of aircraft on the basis of independent current and base value assessments. The other loan within the Group's portfolio has experienced financial difficulties due to changes in regulations regarding its principal air routes. This has affected the ability of the counterparty to repay the loan as the lease payments to the counterparty on one of the underlying securities has stopped. This has been reflected in impairment levels in the past financial year.

In Lending, one of the three remaining investments has been impaired. The investment is a preferred equity investment secured and cross-collateralised by controlling interests in five unlisted US companies. The specific impairment reflects the lower value of the underlying businesses, exacerbated by delays in the sale of the underlying businesses.

For the loans that are not impaired, credit risk is managed by analysing the counterparties' monthly financial reports and regular dialogue is held to discuss any issues that may impact the ability of the counterparty to repay its loan.

In Shipping, specific impairments against three transactions have been raised. In one investment, the Group has a subordinated loan and an equity interest in a vessel where the funding associated with that vessel breached its minimum value maintenance requirement during the 2010 year. As a result, the senior funding was restructured, resulting in the redirection of all cash to pay down senior debt which in turn impacts the return on the Group's loans and the investment. Similarly, in another of the Group's investments, despite compliance with the minimum value maintenance covenant, cash has been withheld in the transaction pending potential non-compliance with future minimum value maintenance requirements. In the remaining investment, the Group has a subordinated loan and an equity investment in two ships under term charter to October 2011. The specific impairment reflects the loss in value due to the expectation of lower charter rates post October 2011.

In Property, markets for two of the loans' counterparties have improved allowing the Group to partially write-back prior year's impairments. Another property loan has been impaired further due to continued delays in realising sales of underlying completed commercial properties and the fact that it may be necessary for the counterparty to reduce the listing price to sell the balance of the properties.

In Infrastructure, a specific impairment against the sole remaining transaction has been raised. The impairment relates to a reduction in value of the solar investment due to production shortfalls and the reductions in the tariff received from the sale of energy as a result of the changes made by the Spanish government to tariff payments over the last six months.

23. FINANCIAL RISK MANAGEMENT *(continued)*

Exposure to credit risk

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

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

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

Accordingly, the Board suspended the TRMP in 2009 on the basis it be reinstated in the event the Group subsequently determines to recommence transaction origination and investment.

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

- All loans and investments will be continuously monitored and reviewed by Keybridge management with a formal report provided to the Board on a regular (monthly) basis.
- Primary Approval Authority for transactions lies with the Board. Apart from the following only the Board can approve a new transaction. The exception is that approval of new funds being provided for existing investments is delegated to both the Chairman and Managing Director together provided the amount does not exceed $500,000 each six months and funds are required to protect the value of an existing Keybridge investment. Such approvals are to be reported to the next Board meeting following the date of approval. No such use of this delegation was used over the 12 moths to 30 June 2011.

The carrying amount of the Group's financial assets represents its maximum credit exposure. The significant reduction in exposure to credit risk in the 12 months to 30 June 2011 is primarily due to the realisation of assets and further recognition of impairment provisions. The Group's maximum exposure to credit risk at the reporting date was:

		Carrying amount	
	Note	2011 $'000	2010 $'000
Cash and cash equivalents	10	5,040	6,136
Loans and receivables	12	143,440	224,721
Trade and other receivables		254	516
		148,734	231,373

23. FINANCIAL RISK MANAGEMENT *(continued)*

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

		Carrying amount	
	Note	2011 $'000	2010 $'000
Cash (Australian banks)	10	5,040	6,136
Aviation		84,445	135,014
Lending		32,940	37,821
Property		9,609	14,489
Shipping		9,220	27,362
Infrastructure		7,480	10,551
		148,734	231,373

The Group's two most significant counterparty exposure relate to two aviation investments, and these account for $84,445 thousand of carrying amounts for the loans and receivables at 30 June 2011 (2010: $135,014 thousand).

These two aviation transactions are mezzanine loans supported by aircraft in the narrow body and wide body segments of the aviation market. One loan accounts for approximately half of the total aviation exposure and relates to a portfolio of 49 aircraft leased to 23 airline operators. Contracts have been entered into for the repayment of this transaction during the half year to 31 December 2011. The other investment is backed by five wide body passenger aircraft leased for an average remaining term of over two years to three international airlines. While there have been signs of recent improvement, the aviation industry continues to be impacted by reduced airline profitability, lower secondary market prices of aircraft and a restricted availability of senior bank debt.

During the year ended 30 June 2011, the Group renegotiated the terms of one of its aviation loans with a total value at year end of $45.6 million. This loan is partially impaired and two of the three underlying leases continue to repay as required.

In Lending, the Group has three transactions across different industries. These comprise a senior loan, a subordinated loan and a preferred equity investment. One of the loans is making monthly payments of principal and interest. The other two investments are currently not paying cash distributions to Keybridge. One of these is expected to be repaid through the course of the 2012 financial year.

During the year ended 30 June 2011, the Group renegotiated the terms of one loan in the Lending segment with total value of $14.6 million. This loan is not impaired and continues to repay as required by the terms of the debt facility.

In Property, Keybridge has two material property loans remaining. One is a subordinated loan secured by a development in Zetland in Sydney. This development is meeting its required milestones, although it is likely to take at least a further 18 months for Keybridge to be repaid.

The other property investment is a subordinated loan secured by a pool of Australian commercial mortgages. The pool is gradually being reduced via the refinancing of the underlying loans, with the senior lender being repaid first. All the loans in the pool are first ranking. It is likely to take a further 2 to 3 years for Keybridge to be repaid. In the past 12 months, Keybridge received $11.9 million of repayments from its property loans and receivables.

At 30 June 2011 one loan in the property portfolio has reached its contracted maturity. Keybridge has agreed in-principle to extend the facility for a further period of time. The loan is currently impaired.

23. FINANCIAL RISK MANAGEMENT *(continued)*

During the year ended 30 June 2011, the Group renegotiated the terms of one of its property loans with a total value at year end of $5.6 million. This loan is partially impaired.

In shipping markets, charter rates and secondary market prices of vessels have fallen materially over the past few years. The shipping transactions in the Group's portfolio have senior debt facilities with loan-to valuation covenants that have already been, or may in the future be, breached. Thus, the continuing support of the non-recourse senior lenders is important. These transactions are not currently making cash distributions to the Group. The underlying charter parties continue to meet their payment obligations on time and cashflow is being used to accelerate senior debt reduction at the asset level.

Keybridge has two material shipping transactions remaining. These are equity investments in, and loans to associates that own four ships leased to two shipping companies for an average remaining term of just over two years.

The ships are employed in the chemical/palm oil and petroleum products sectors. In 2011, the Group received $0.7 million of repayments from its shipping portfolio and recognised nil profit on the equity accounted investments.

In Infrastructure, the Group has one investment. The investment is a loan and an equity position in a solar facility in Spain. There is no senior debt ranking ahead of the Group in this transaction.

For loans that are not impaired credit risk is managed by analysing regular financial reports from the counterparties as well as ensuring there is constant oversight of issues that may impact the ability of the counterparty to repay its loan.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. At 30 June 2011 the Group's secured bank loans were recorded as current liabilities due to the facility being due for repayment in June 2012. For further information refer Note 2(b) – Going Concern.

The Group met all required minimum debt repayments in the period to 30 June 2011.

Under the new terms of the debt facility there is a requirement to make a minimum repayment of $12.5 million in the period from 31 December 2010 to 2 December 2011, of which $3.1 million remains to be met as at the date of this Report. The committed debt facilities are fully drawn and the total limit will reduce as repayments occur.

The Group manages liquidity risk via:

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

At 30 June 2011, the Group's committed debt facilities were recognised as current liabilities. Details of the Group's financial liabilities maturity profile for the past two financial year ends are as follows:

	Carrying amount $'000	Contractual cash flows $'000	6 mths or less $'000	6–12 mths $'000	1–2 years $'000	2–5 years $'000
30 June 2011						
Financial liabilities						
Secured bank loans	(99,709)	(103,306)	(4,890)	(98,416)	–	–
Bank fee payable	(182)	(1,380)	–	(1,380)	–	–
Trade and other payables	(1,191)	(1,191)	(1,191)	–	–	–
	(101,082)	(105,877)	(6,081)	(99,796)	–	–

23. FINANCIAL RISK MANAGEMENT *(continued)*

	Carrying amount $'000	Contractual cash flows $'000	6 mths or less $'000	6–12 mths $'000	1–2 years $'000	2–5 years $'000
30 June 2010						
Non–derivative financial liabilities						
Secured bank loans	(145,120)	(154,041)	(10,899)	(143,142)	–	–
Bank fee payable	(1,553)	(3,890)	–	(3,890)		
Trade and other payables	(2,749)	(2,749)	(2,749)	–	–	–
Interest rate swaps						
Liabilities	(4,754)	(4,945)	(2,558)	(2,388)	–	–
	(154,176)	(165,625)	(16,206)	(149,420)	–	–

Market risk

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

The Group is exposed to equity risk on shares in an ASX-listed company to the extent of $1.5 million (2010: $0.9 million). The Group no longer holds interest rate swaps (2010: $4.75 million) and therefore is not exposed to interest rate risk on its derivative liabilities.

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

Foreign currency risk

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

During the past year, the Group converted its remaining Australian Dollar-denominated bank loans to US Dollars. As a result, the Group has increased the natural hedge of its US Dollar-denominated investments from 67% as at 30 June 2010 to 89% as at 30 June 2011.

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

23. FINANCIAL RISK MANAGEMENT *(continued)*

Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows:

AUD equivalents	USD	Euro	USD	Euro
	30 June 2011 $'000		30 June 2010 $'000	
Cash and cash equivalent	545	3	1,046	1,274
Loans and receivables	111,938	7,471	183,494	10,551
Total asset exposure	112,483	7,474	184,540	11,825
Foreign exchange interest rate swap	–	–	(4,137)	–
Foreign exchange borrowings	(99,709)	–	(118,008)	–
Net exposure	12,774	7,474	62,395	11,825

The net exposure relates to assets in foreign currencies that are not naturally hedged with foreign currency borrowings.

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
AUD:USD	0.9904	0.8824	1.0734	0.8558
AUD:Euro	0.7254	0.6362	0.7406	0.6995

Sensitivity analysis

The Group is exposed to the translation impact back to Australian Dollars in relation to the US Dollar-denominated and Euro-denominated investments that are not naturally hedged by US Dollar and Euro corporate borrowings. In the case of US Dollar-denominated investments the Group is exposed to 11% of the total US Dollar-denominated investments and in the case of Euro-denominated investments the Group is exposed to 100% of the total Euro-denominated investments. As a result, a change in an exchange rate will have an equal and offsetting impact on the change in the book value of the underlying investment and the profit or loss of the Group.

As shown in the table below, if the Australian Dollar were to decrease/(increase) in value by 10%, against both the US Dollar and the Euro, the Group would recognise a non-cash profit of $2.2 million (loss of $1.8 million).

$'000 AUD	Profit or loss	
	10% increase	10% decrease
30 June 2011		
USD	(1,112)	1,359
Euro	(679)	830
	(1,791)	2,189
30 June 2010		
USD	(5,953)	7,276
Euro	(959)	1,172
	(6,912)	8,448

23. FINANCIAL RISK MANAGEMENT *(continued)*

Interest rate risk

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

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

Interest rate profile

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

	Carrying amount	
	2011 $'000	2010 $'000
Variable rate instruments		
Cash on hand	5,040	6,136
Financial assets	–	15,000
Financial liabilities – corporate borrowings	(99,709)	(145,120)
Interest rate swaps (pay fixed receive floating)	–	106,601
Total variable rate instruments	(94,669)	(17,383)

The Group is entitled to receive a fixed rate of interest in relation to all of the Group's financial assets. Interest income at fixed rates is received as cash or, where there is a reasonable probability of receipt, as accrued income and recognised in the profit and loss statements.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss and the Group no longer holds derivative liabilities (interest rate swaps).

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates throughout the reporting period would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

As at 30 June 2011 the only variable interest rate that the Group is exposed to is the interest rate on the debt facility being the US LIBOR. The interest rate used for the sensitivity analysis on was based on US LIBOR as at 30 June 2011 which was 0.17%. The sensitivity analysis that the Group performs is to reduce the interest rate by 100bps, which would reduce the rate below zero, therefore the reduction will only be for 0.17%. This result in a reduction of interest costs by $0.2 million. If the interest rate rose by 100bps, the interest expense would increase by $1.0 million.

As at 30 June 2010, the Group had an Australian dollar interest rate swap which provided a hedge from variable to fixed interest rates for 92% of the Australian dollar debt. The Group also held a US dollar interest rate swaps that provided a hedge from variable to fixed interest rates for 69% of the US Dollar debt. Both of these interest rate swaps have since expired and as a result the Group is no longer hedged for interest rates on its debt facility.

23. FINANCIAL RISK MANAGEMENT *(continued)*

Cash flow sensitivity analysis for variable rate instruments *(continued)*

	Profit or loss		Equity	
	100bp increase $'000	100bp decrease $'000	100bp increase $'000	100bp decrease $'000
30 June 2011				
Variable rate instruments	–	–	–	–
Debt facility	(977)	169	–	–
Cash flow sensitivity (net)	(997)	169	–	–
30 June 2010				
Variable rate instruments	143	(143)	–	–
Interest rate swap	–	–	(391)	405
Debt facility	(385)	385	–	–
Cash flow sensitivity (net)	(242)	242	(391)	405

Fair values versus carrying amounts

For loans and receivables, the fair value is determined using an estimate of interest rates that may apply if these assets were refinanced as at 30 June 2011 and using the estimated cash flows as at balance date.

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

	30 June 2011		30 June 2010	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Other investments	1,456	1,456	990	990
Loans and receivables	143,440	122,780	224,721	199,087
Cash and cash equivalents	5,040	5,040	6,136	6,136
Trade and other receivables	334	334	597	597
Liabilities				
Interest rate swaps	–	–	(4,754)	(4,754)
Secured bank loans	(99,709)	(99,709)	(145,120)	(145,120)
Trade and other payables	(1,373)	(1,373)	(4,302)	(4,302)
	49,188	28,528	78,268	52,634

The difference between the carrying amount and the fair value of the loans and receivables is as a result of discounting the estimated future cash flows of the loan and receivable using prevailing market rates i.e. if the Group were to provide new loans and advances or acquire new borrowing facilities as at 30 June 2011 instead of the original effective interest rate.

23. FINANCIAL RISK MANAGEMENT *(continued)*

Interest rates used for determining fair value

For the purposes of this sensitivity, the interest rates used to discount estimated cash flows are based on the yields required given prevailing market conditions, including historically constrained liquidity and low levels of available senior debt refinancing. The rates have changed from 2010 to 2011 as a result of the realisation of some of the lower interest earning investments. The rates were in the following ranges, with the specific discount rate selected based on the characteristics of the underlying investment including asset class, term and risk profile.

	2011	2010
Interest rates	23%–29%	20%–30%

Fair value hierarchy

The following table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2011				
Other investments	1,456	–	–	1,456
	1,456	–	–	1,456
30 June 2010				
Other investments	900	–	–	990
Derivative financial liability	–	(4,754)	–	(4,754)
	990	(4,754)	–	(3,764)

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

Capital management

The Group's total capital at 30 June 2011 was $49.4 million comprising contributed equity (net of retained losses) and corporate borrowings of $99.7 million.

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

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

23. FINANCIAL RISK MANAGEMENT *(continued)*

During the 2011 financial year, the Group purchased its own shares on-market; the timing of these was during the allowable trading windows under the Company's Share Trading Policy. The shares have been issued to employees under the Group's Employee Share Plan (refer Note 24).

24. SHARE-BASED PAYMENTS

Employee share schemes

Employee Equity Plan (New Plan)

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

If all the performance conditions were met in the respective year, 100% of the performance rights granted for that year were to vest. In the event that an employee failed to satisfy all the performance conditions, the percentage of performance rights which vested were to be determined by the Board by reference to the extent to which the performance conditions were satisfied. If, for any reason, it was not clear whether a performance condition or any aspect thereof had been satisfied, the Board was able to determine whether the performance condition was deemed to have been satisfied in its absolute discretion.

The key performance indicators for the Employee Equity Plan relate to:

- reductions in, and management of, outstanding corporate borrowings;
- profitability;
- stakeholder, Board and team management; and
- business development.

These key performance indicators have been selected as they reward actions which contribute towards the longevity of the Group.

Across all executives, the maximum number of shares that were able to be allocated each year was as follows:

- 2010: 4,150,000.
- 2011: 4,199,999.

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

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

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

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

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

24. SHARE-BASED PAYMENTS *(continued)*

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

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

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

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

	Grant date	Number of instruments	Grant price[b]	Vesting conditions	Contractual life
Performance rights grant to employees on:	26 March 2010	3,348,333	$0.12	Meeting agreed key performance indicators	2 years
	29 May 2010	1,375,000	$0.11	Meeting agreed key performance indicators	2 years
Managing Director[a]	8 October 2010	4,033,333	$0.10	Meeting agreed key performance indicators	2 years
		8,766,666			

(a) In respect of the Managing Director, the performance rights were granted on 8 October 2010 following an amendment to his service agreement

(b) The fair value was calculated on the price of the Company's shares at the grant dates.

24. SHARE-BASED PAYMENTS *(continued)*

Movement in performance rights

	Date of grant	Number of rights granted prior periods	Number of rights granted 2011[b]	Number of rights forfeited[c]	Total number of rights granted	Vesting date[d]	Number of rights vested in 2011[e]	Number of rights vested in 2010
Current								
Managing Director[a]	8 Oct 2010	–	4,033,333	–	4,033,333	31 Aug 2011	–	–
Employees – Year 2 grant	29 May 2010	1,200,000	_	–	1,200,000	31 Aug 2011	–	–
Employees – Year 1 grant	29 May 2010	175,000	_	–	175,000	31 Aug 2010	175,000	–
Employees – Year 2 grant	26 Mar 2010	1,583,333	_	(416,667)	1,166,666	31 Aug 2011	–	–
Employees – Year 1 grant	26 Mar 2010	1,775,000	_	–	1,775,000	31 Aug 2010	1,775,000	–
		4,733,000	4,033,333	(416,667)	8,349,999		1,950,000	

(a) In respect of the Managing Director, the performance rights were granted on 8 October 2010 following an amendment to his service agreement.

(b) The Managing Directors performance rights of 4,033,333 that were disclosed in 2010 were deferred to 8 October 2010.

(c) Rights were forfeited by an employee who resigned during the year.

(d) Performance rights vest subject to performance over the period from 1 July 2009 through to 31 August 2011 in respect of Year 2. Performance rights lapse where the service and performance conditions are not satisfied.

(e) Shares were purchased on-market for the settlement of performance rights.

The performance rights outstanding at 30 June 2011 may be exercisable, once it has been agreed that all key performance indicators have been met.

The exercise price will be based on the prevailing share price, when the Group seeks to purchase on-market shares, in settlement of the performance rights.

The expense recognised in the net profit/loss for the period ended 30 June 2011 was $507,739 (2010: $308,208) and the additional amount recognised in the share-based payment reserve was $507,739 (2010: $308,208).

Director and Employee Share Scheme (Old Plan)

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

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

- the majority of shares have an issue price of $1.25 per share (except for 525,000 shares granted in 2007 which had an issue price of $2.27 per share);
- limited recourse, interest free loans were provided by the Company to fund the acquisition of the shares;
- between 75% and 100% of the cash value of dividends paid on the Shares during the vesting period were to be applied towards part repayment of the loan, with up to 25% of the cash value of dividends being remitted to the participants to assist fund their personal tax liability on the dividends;
- other than dividends, there was no payment of cash by the Company to participants;

24. SHARE-BASED PAYMENTS *(continued)*

- the limited recourse loan was to be repaid within five years from the date of issue (or the shares surrendered in full satisfaction of the loan);
- shares were to vest progressively over periods up to three years from date of issue, subject to participants remaining employed with the Company; and
- once vested, shares were subject to a non-selling period of 12 months and may only be dealt with where the loan had been repaid.

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

25. RELATED PARTY DISCLOSURE

Key management personnel compensation

Information regarding individual Directors and senior executives' compensation and shares held in the Company as required by Corporations Regulations 2M.3.03 are provided in the Remuneration Report on pages 31 to 39 of this Annual Report.

Other than as disclosed in Note 24, no Director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

25. RELATED PARTY DISCLOSURE *(continued)*

Senior executives (including for the Managing Director)

in AUD	Short-term employee benefits Cash salary $	 Incentive and retention payments $	 Non-monetary $	Post-employment benefits Company contributions to superannuation $	 Share-based payments $	 Total $
Totals – 2011	1,013,373	583,622	–	42,203	347,425	1,986,623
Totals – 2010*	1,046,073	17,500	–	31,729	150,596	1,245,898

** Restated – Payments for incentive and retention payments disclosed in the financial statements for June 2010 were not paid to the Managing Director but have been deferred into the 2011 financial year following an amendment to his service agreement.*

Chairman and Non-executive Directors

in AUD	Short-term employee benefits Cash fees $	 Incentive and retention payments $	 Non-monetary $	Post-employment benefits Company contributions to superannuation $	 Share-based payments $	 Total $
Totals – 2011	208,625	–	–	18,675	–	227,300
Totals – 2010	221,575	–	–	19,942	5,925	247,442

Directors and key management personnel

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

Non-executive Directors

Irene Lee (Chairman)
Peter Wood (Non-executive Director) (appointed 14 October 2010)
Michael Perry (Non-executive Director) (resigned 15 September 2010)
Cass O'Connor (Non-executive Director) (resigned 15 September 2010)

Executive Directors

Mark Phillips (Managing Director)
Mark Worrall (appointed 16 September 2010)

Other key management

Adrian Martin (Company Secretary)

25. RELATED PARTY DISCLOSURE *(continued)*

(a) Details of remuneration

Details of the remuneration of key management personnel are set out in the Remuneration Report on page 31 to 39 and above.

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

The numbers of shares in the Company held during the financial year by key management personnel of the Group, including their personally-related entities is set out below.

This includes shares provided as remuneration from the Keybridge Capital Limited Director and Employee Share Plan (Old Plan) and under the Employee Equity Plan (New Plan).

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

(c) Other transactions with key management personnel

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

Employee Share Plan Scheme (Old Plan)

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

+ Resigned 30 November 2008

++ Resigned 25 May 2009

+++ Resigned 15 September 2010

 # In the 2010 financial year, all outstanding shares held by the Directors, under the Director and Employee Share Scheme, were surrendered due to expiration. The Director and Employee Share Scheme has now been cancelled.

25. RELATED PARTY DISCLOSURE *(continued)*

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

Share-based payments to key management personnel (Old Plan)

	Number of employee shares granted during 2007	Grant date	Fair value at grant date ($)	Exercise price ($)	Expiry date	Number of Employee shares vested during 2010	Number of employee shares surrendered during 2010	Number of employee shares vested as at 30 June 2010#
Management personnel								
David Stefanoff	150,000	5 October 2006	30,745	1.25	29 April 2010	50,000	(150,000)	–
Ian Pike+	400,000	5 October 2006	83,669	1.25	29 April 2010	133,333	(400,000)	–
Matthew Davis++	225,000	17 June 2007	80,511	2.27	29 April 2010	75,000	(225,000)	–
Karen Penrose+++	150,000	5 October 2006	30,745	1.25	29 April 2010	50,000	(150,000)	–
	925,000		226,670			308,333	(925,000)	–

+ Resigned 11 December 2009.

++ Resigned 4 September 2009.

+++ Resigned 31 March 2010.

 # In the 2010 financial year, all outstanding shares held by the Directors, under the Director and Employee Share Scheme, were surrendered due to expiration. The Director and Employee Share Scheme has been cancelled.

Movement of options and rights over equity instruments

The movement during the 2010 financial year in the number of options over ordinary shares in the Company held directly by each key management person is as follows:

	Held at 1 July 2009	Granted as performance-based remuneration	Exercised	Other changes*	Held at 30 June 2010	Vested during 2010 the year	Vested and exercisable at 30 June 2010
Directors							
Irene Lee	1,000,000	–	–	(1,000,000)	–	333,334	–
Mark Phillips	3,000,000	–	_	(3,000,000)	–	1,000,000	–
Michael Perry+	200,000	–	_	(200,000)	–	66,668	–
	4,200,000	–	_	(4,200,000)		1,400,002	

+ Resigned 15 September 2010.

25. RELATED PARTY DISCLOSURE *(continued)*

Movement of options and rights over equity instruments *(continued)*

	Held at 1 July 2009	Granted as performance-based remuneration	Exercised	Other changes*	Held at 30 June 2010	Vested during 2010 the year	Vested and exercisable at 30 June 2010
Other key management personnel							
Ian Pike++	400,000	–	_	(400,000)	_	133,334	–
Karen Penrose+++	150,000	–	_	(150,000)	_	50,000	–
	550,000			(550,000)		183,334	

++ Resigned 11 December 2009.

+++ Resigned 31 March 2010.

** Other changes represent options that expired or were surrendered unexercised to the Trustee of the Share Scheme during the year.*

The exercise price of $1.25 per ordinary share for the shares issued to key management personnel is materially above the Company's share price at 30 June 2010.

All options were held directly by key management personnel.

Employee Equity Plan (New Plan)

Performance rights

As a result of the deferral of the Managing Director's 2010 incentive and retention payments, his performance rights were granted in October 2010 as per the terms of his amended Employment Contract. Other than Managing Director's allocation, no other shares have been granted for the 30 June 2011 financial year.

Details of the performance rights granted to senior executives during the 2011 financial year under the Employee Equity Plan are set out in the tables below.

Senior executive	Number of performance rights granted[(a)]	Fair value of performance rights[(b)]	Maximum value of grant
Current			
Mark Phillips, Managing Director	4,033,333	$0.10	$403,333

(a) In respect of the Managing Director, the performance rights were granted on 8 October 2010 following an amendment to his service agreement.

(b) The fair value was calculated on the price of the Company's shares at the grant dates.

25. RELATED PARTY DISCLOSURE *(continued)*

Details of the performance rights granted to senior executives during the 2010 financial year under the Employee Equity Plan are set out in the tables below.

Senior executive	Number of performance rights granted[(a)]	Fair value of performance rights[(b)]	Maximum value of grant[(c)]
Current			
Mark Worrall, Executive Director	1,375,000	$0.11	$151,250
Adrian Martin, Company Secretary	425,000	$0.12	$51,000
Total	1,800,000	–	$202,250

(a) The grants made to senior executives constituted their full entitlement for the 2010 and 2011 financial years and were made on 26 March 2010 (for Adrian Martin) and 29 May 2010 (for Mark Worrall) on the terms summarised above. In respect of the Managing Director, the performance rights were granted on 8 October 2010 following an amendment to his service agreement.

(b) The fair value was calculated on the price of the Company's shares at the grant dates.

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

Movement in performance rights

	Date of grant	Number of rights granted prior periods	Number of rights granted 2011	Total number of rights granted[1]	Vesting date[2]	Number of rights vested in 2011	Value ($) of rights vested[3]	Number of rights vested in 2010
Current								
Mark Phillips, Managing Director	8 Oct 2010	–	4,033,333	4,033,333	31 Aug 2011	–	–	–
Mark Worrall, Executive Director	29 May 2010	1,200,000	_	1,200,000	31 Aug 2011	–	–	–
Mark Worrall, Executive Director	29 May 2010	175,000	_	175,000	31 Aug 2010	175,000	16,450	–
Adrian Martin, Company Secretary	26 Mar 2010	250,000	_	250,000	31 Aug 2011	–	–	–
Adrian Martin, Company Secretary	26 Mar 2010	175,000	_	175,000	31 Aug 2010	175,000	16,450	–

1 No grants were forfeited during the financial year.

2 Performance rights vest subject to performance over the period from 1 July 2009 through to 31 August 2010 in respect of Year 1 and 1 July 2010 through to 31 August 2011 in respect of Year 2. Performance rights lapse where the service and performance conditions are not satisfied.

3 Shares were purchased on-market at an average share price of 9.4 cents and were issued in satisfaction of the vesting of the performance rights.

Movements in shares

The numbers of shares in the Company held during the financial year by key management personnel of the Group, including their personally-related entities is set out below. This excludes shares provided as retention based remuneration from the Keybridge Capital Employee Share Scheme, unless such shares have been exercised.

25. RELATED PARTY DISCLOSURE *(continued)*

	Held at 1 July 2010	Purchases	Received on vesting of performance rights	Sales	Other	Held at 30 June 2011
Directors						
Irene Lee	1,750,414	–	–	–	–	1,750,414
Peter Wood	–	–	–	–	–	–
Mark Phillips	453,149	–	–	–	–	453,149
Mark Worrall	–	–	175,000	–	–	175,000
Michael Perry+	535,715	–	–	–	(537,715)	–
Cass O'Connor+	100,000	–	–	–	(100,000)	–
Other key management personnel						
Adrian Martin	5,000	–	175,000	–	–	180,000
	2,844,278	–	350,000	–	(637,715)	2,558,563

+ Resigned 15 September 2010.

	Held at 1 July 2009	Purchases	Received on exercise of options	Sales	Other	Held at 30 June 2010
Directors						
Irene Lee	1,750,414	–	–	–	–	1,750,414
Mark Phillips	453,149	–	–	–	–	453,149
Michael Perry+	535,715	–	–	–	–	535,715
Cass O'Connor+	–	100,000	–	–	–	100,000
Other key management personnel						
Adrian Martin	5,000	–	–	–	–	5,000
	2,744,278	100,000	–	–	–	2,884,278

+ Resigned 15 September 2010.

26. GROUP ENTITIES

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

		Ownership interest	
Significant subsidiaries	Country of incorporation	2011 %	2010 %
Bridge Property Investments Pty Limited	Australia	100	100
Pacific Bridge Cyprus Limited	Cyprus	100	100
Bridge Financial Pty Limited	Australia	100	100
MB Finance Pty Limited	Australia	100	100
Keybridge Funds Management Pty Limited	Australia	100	100
Keybridge Aviation Pty Limited	Australia	100	0

27. SUBSEQUENT EVENT

Subsequent to balance date, binding contracts have been entered into for the repayment of one of the Group's aviation loans. This is expected to settle no later than mid October 2011 and will realise no less than USD45.0 million.

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

28. COMMITMENTS

(i) Maintenance commitment

There was a requirement to reimburse an amount of repairs, which was funded in advance by the senior lender for one of the Group's investment in an aircraft. This requirement has now ceased as a result of the aircraft being repossessed. The balance of the amount required to be repaid is nil at 30 June 2011 (2010: $0.4 million).

	2011 $'000	2010 $'000
Less than one year	–	72
Between two and five years	–	284
	–	356

(ii) Loan commitments

There are no undrawn commitments at year end.

28. COMMITMENTS *(continued)*

(iii) Lease commitments

	2011 $'000	2010 $'000
Less than one year*	177	241
Between one and five years	44	313
	221	554

** Net of sub-lease valued at $43,008 at 30 June 2011.*

During the financial year the lease payments recognised as an expense totalled $221,319. The Group leases its premises under a lease which expires in September 2012. The Group also leases office equipment under a lease which expires in September 2011. Leases generally provide the Group entity with a right of renewal at which time all terms are renegotiated.

(iv) Financial guarantees

The Group does not have any financial guarantees as at 30 June 2011.

29. CONTINGENCIES

There are no contingent assets or liabilities as at 30 June 2011.

30. AUDITOR'S REMUNERATION

	2011 $'000	2010 $'000
Auditors of the Company		
KPMG Australia		
Audit and review of the financial reports	145	141
Other regulatory audit services	5	5
Tax services	46	28
	196	174

31. PARENT ENTITY DISCLOSURES

As at, and throughout the financial year ending 30 June 2011, the parent entity of the Group was Keybridge Capital Limited.

	2011 $'000	2010 $'000
Result of parent entity		
Loss for the period	(33,971)	(45,880)
Other comprehensive income	4,512	6,644
Total comprehensive loss for period	(29,459)	(39,236)
Financial position at year end		
Current assets	12,544	28,267
Total assets	150,531	232,758
Current liabilities	101,082	154,176
Total liabilities	101,082	154,176
Total equity of the parent entity		
Share capital	260,651	260,651
Cash flow hedge reserve	–	(4,512)
Share based payment reserve	1,557	1,233
Retained losses	(212,759)	(178,790)
Total equity	49,449	78,582

The parent entity has no contingencies or any capital commitments for property, plant and equipment. The parent entity has no guarantees over the debt of its subsidiaries.

Directors' Declaration

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

(a) the Consolidated Financial Statements and Notes that are set out on pages 41 to 93 and the Remuneration Report in the Directors' Report, set out on pages 31 to 39, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

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

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

2 The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and the Company Secretary for the financial year ended 30 June 2011.

3 The Directors draw attention to Note 2(a) to the Consolidated Financial Statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a Resolution of Directors:

Irene Lee
Chairman

Sydney, 11 August 2011

Lead Auditor's Independence Declaration

KPMG

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

To: the directors of Keybridge Capital Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

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

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

KPMG

KPMG

Madeleine Mattera

Madeleine Mattera
Partner

Sydney
11 August 2011

Independent Auditor's Report

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Keybridge Capital Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended on that date, notes 1 to 31 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

KPMG

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

Independence

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

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

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

Emphasis of Matter - Uncertainty regarding continuation as a going concern

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

As at 30 June 2011, the Group has net current liabilities of $76,917,000 which is mainly due to the current classification of the Group's loan facility. The Group's corporate debt facility matures on 2 June 2012. As set out in note 2(b), the Directors expect that the Group will reduce its debt levels through the collection of loans and receivables due to the Group and then refinance the balance at maturity.

As set out in Note 17, the Group is required to meet repayment milestones totalling $12.5 million over the period of 31 December 2010 to 2 December 2011, of which $9.4 million has been met at the date of this report. Subsequent to balance date, the Group has executed contracts for the repayment of one of its aviation loans. Successful settlement, expected in October 2011, is expected to yield proceeds of USD45.0m which will be available to reduce the balance of outstanding debt.

The Group's ability to meet the conditions of its debt facility, meet the remaining repayment milestones, repay the outstanding debt and fund daily operations is largely contingent on being able to obtain repayments of loans and receivables at expected values and within expected timeframes as well as the ongoing receipt of interest income.

The outcome of these transactions and the willingness of the banks to refinance any remaining debt at June 2012 cannot presently be determined with absolute certainty, although, as outlined in note 2(b), the Directors expect these transactions to occur in time to meet the Group's repayment obligations and cash flow needs.

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

Report on the remuneration report

We have audited the Remuneration Report included on pages 31 to 39 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Keybridge Capital Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Madeleine Mattera

Madeleine Mattera
Partner

Sydney
11 August 2011

Shareholder Information

The shareholder information set out below was applicable as at 25 July 2011.

DISTRIBUTION OF EQUITY SECURITIES

Range	Total holders	Shares	% of issued shares
1 to 1,000	202	109,534	0.06
1,001 to 5,000	655	1,970,381	1.11
5,001 to 10,000	452	3,472,469	1.95
10,001 to 100,000	822	27,621,727	15.51
100,001 and over	189	144,871,453	81.37
Total	2,320	178,045,564	100.00

ON-MARKET BUY-BACK

There is no current on-market buy-back.

LARGEST SHAREHOLDERS

The names of the 20 largest holders of ordinary shares as at 25 July 2011 are listed below:

Shareholder	Number held	% of issued shares
Citicorp Nominees Pty Limited	29,000,543	16.29
J P Morgan Nominees Australia Limited	13,000,011	7.30
UBS Nominees Pty Ltd	6,670,000	3.75
JP Morgan Nominees Australia Limited	6,100,598	3.43
MB Finance Pty Ltd <Mariner Bridge Investments Employee Share Scheme A/C>	5,975,000	3.36
Whitechurch Developments Pty Ltd <Whitechurch S/F A/C>	4,619,996	2.59
Whitechurch Developments Pty Ltd	3,722,076	2.09
ASG Holdings Pty Limited <Danny Goldberg Family A/C>	3,484,034	1.96
Mr Paul Jacobs	3,462,568	1.94
Armada Trading Pty Limited	3,227,194	1.81
Australian Style Group Pty Ltd	2,158,000	1.21
Mr Patrick Martin Burroughs	2,000,000	1.12
Cherryoak Investments Pty Ltd <C & N Family A/C>	2,000,000	1.12
Gersor Pty Ltd <Gersor Superfund A/C>	2,000,000	1.12
Valamoon Pty Limited <Valamoon Pty Ltd S/F A/C>	1,400,143	0.79
Mrs Lynette Beryl Wamsteker	1,400,000	0.79
Australian Executor Trustees Limited <No 1 Account>	1,393,638	0.78
Mr Donald Gordon Mackenzie + Mrs Gwenneth Edna Mackenzie	1,362,000	0.76
Denald Nominees Pty Ltd <Rhayden Super Benefit 1 A/C>	1,200,000	0.67
Cunact Pty Ltd <Lionel Moore Super Fund A/C>	1,150,000	0.65

Shareholder Information

SUBSTANTIAL HOLDERS

Shareholder	Number of shares	%
Australian Style Group Pty Ltd	28,847,836	16.76

VOLUNTARY ESCROW

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

MARKETABLE PARCELS

The number of holders holding less than a marketable parcel of 7,463 shares ($0.067 on 25 July 2011) is 1,076.

VOTING RIGHTS

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

SHAREHOLDER ENQUIRIES

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

CHANGED YOUR ADDRESS?

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

INVESTOR INFORMATION

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

ONLINE RECEIPT OF THE ANNUAL REPORT AND SHAREHOLDER INFORMATION

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

STOCK EXCHANGE LISTING

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

(ASX Code: KBC).

UNQUOTED EQUITY SECURITIES

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

Corporate Directory

REGISTERED OFFICE

Level 26
259 George Street
Sydney NSW 2000

T +61 2 9321 9000
F +61 2 9321 9090
www.keybridge.com.au

SHARE REGISTRY

Link Market Services Limited

Level 12
680 George Street
Sydney NSW 2000

T (within Australia): 1800 992 613
T (outside Australia): +61 2 8280 7746
www.linkmarketservices.com.au

KEYBRIDGE CAPITAL LIMITED

Level 26
259 George Street
Sydney NSW 2000

T +61 2 9321 9000
F +61 2 9321 9090

ABN 16 088 267 190

www.keybridge.com.au