

27 August 2014

Full Year Results

- **Net loss after tax and impairment provisions of \$2.9 million**
- **\$14.9 million of investment realisations from difficult assets**
- **Strong cash position and no debt**
- **Over \$3 million returned to shareholders through the acquisition of 15.8 million shares under the on-market buy-back program**
- **Audited Net Tangible Assets of 23.0 cents per share at 30 June 2014**
- **Estimated unaudited Net Tangible Assets of 22.7 cents per share as at 31 July 2014**

The year ended 30 June 2014 was a year of transition for Keybridge Capital Limited (Keybridge) as management focused on its asset realisation program while developing a new investment strategy for its cash, having repaid all outstanding corporate debt in the previous year.

Keybridge achieved two significant asset realisations (as detailed below) amongst some smaller recoveries. However an unsolicited takeover offer made in November 2013, by Keybridge's then largest shareholder, Oceania Capital Partners (OCP), distracted its management team from focusing on its strategic investment plans.

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

Financial Results

For the year to 30 June 2014, Keybridge's net loss after tax attributable to ordinary shareholders was \$2.9 million, compared with a loss of \$3.8 million in the prior year. This represents a basic and diluted loss of 1.74 cents per share (2.21 cents per share loss in 2013).

The loss was largely a result of significant one-off legal and transaction costs which were incurred as a result of the Keybridge's largely successful efforts to recover two outstanding troubled loans as well as in defence of a takeover bid made by OCP. These costs have been categorised as operating costs, and are not expected to continue at the same level for the year ended 30 June 2015.

	2014 \$ millions	2013 \$ millions
Income	1.9	5.9
Operating costs	(2.8)	(2.6)
Non-recurring costs	(1.4)	-
Borrowing costs	-	(1.3)
Operating profit before FX adjustments	(2.3)	2.0
Foreign exchange	0.1	2.0
Operating (loss)/profit after FX adjustments	(2.2)	4.0
Net impairments	(0.5)	(12.1)
Income tax (expense)/benefit	(0.2)	4.3
Net (loss) after tax	(2.9)	(3.8)

Currency amounts in this announcement are denominated in Australian Dollars, unless otherwise specified.

Income

Keybridge's Investment and interest income was lower in the twelve months to 30 June 2014 than in the prior period, predominantly as a result of having realised its investment in Aircraft and no longer recognising interest income on its loan to PR Finance Group (PRFG).

Asset revaluations

During the year Keybridge recognised \$0.5 million of net impairment provisions across its portfolio: This consisted of:

- a reversal of a previous impairment of \$3.0 million against the P&J Projects' loan being achieved as a result of a successful \$3.0 million recovery;
- less:
- a \$1.9 million provision against an equity investment in PRFG;
- a \$1.5 million provision against the equity investment in the Spanish solar farm; and
- an impairment of \$0.2 million against a loan provided to a small ASX-listed entity, which entered voluntary administration in the second half of the financial year.

There were also unrealised mark-to-market losses in the value of listed shares of \$0.5 million.

Further details are provided in the Keybridge's Financial Statements.

Asset Realisations

During the year Keybridge achieved two significant asset realisations amongst several smaller recoveries.

In August 2013, Keybridge completed the acquisition of PRFG and in September 2013, sold its Motor Finance Wizard business, which recovered \$10.5 million from a previous loan outstanding to PRFG that was in default and considered at high risk of being uncollectable. Keybridge later placed PRFG's remaining AMX Money business into Administration. Although this transaction resulted in a reported loss, Keybridge considers the recovery of \$10.5 million in cash from these transactions as a successful outcome.

In February 2014, Keybridge also recovered over \$3 million from a loan to P&J Projects, which had previously been written off.

A breakdown of the results is provided in Attachment 1.

Summary of Financial Position at 30 June 2014

Investments

As at 30 June 2014, the value of Keybridge's investments by asset class was as follows:

	\$ millions	% of total
Cash	14.5	39%
Infrastructure	7.0	19%
Listed Equity	6.3	17%
Private Equity	5.2	14%
Property	2.5	6%
Lending	1.8	5%
	37.3	100%

Attachment 2 includes a summary of the performance of Keybridge's investments by asset class.

Balance Sheet

The following is a simplified balance sheet for Keybridge as at 30 June 2014:

	\$ millions
Investments	3.8
Non-Core Investments	19.0
Cash-on-hand	14.5
Other Assets	0.3
Liabilities	(1.0)
Shareholders' Funds	36.6

With 158.7 million listed shares on issue as at 30 June 2014, shareholders' funds equated to Net Tangible Assets of approximately 23.0 cents per share.

Of Keybridge's total assets as at 30 June 2014, approximately 33% were denominated in either US Dollars or Euros, which were unhedged against movement in the value of the Australian Dollar. Movements in exchange rates over the year led to a net unrealised gain in value of \$0.1 million (2013: gain of \$2.0 million).

Outlook

Having largely completed the difficult program of complex asset realisations and workouts over the last few years, Keybridge is currently reviewing a number of investment opportunities and will keep the market informed as they progress.

Keybridge Capital is a financial services company that has invested in, or lent to, transactions which are predominantly in the asset classes of infrastructure, listed and private equity, property, and lending.

For further information, please contact:

Nicholas Bolton
 Managing Director
 Tel: +61 2 9321 9000
www.keybridge.com.au

Adrian Martin
 Chief Financial Officer
 Tel: +61 2 9321 9000
www.keybridge.com.au

Profitability

	30 June '14	31 Dec '13*	2014	2013
	\$ millions	\$ millions	\$ millions	\$ millions
Income ⁽¹⁾	0.5	1.4	1.9	5.9
Operating Costs ⁽²⁾	(1.2)	(1.6)	(2.8)	(2.6)
Non-recurring Costs ⁽²⁾	(0.9)	(0.5)	(1.4)	(2.6)
Borrowing Costs	-	-	-	(1.3)
Pre Tax Operating Profit/(Loss)	(1.6)	(0.7)	(2.3)	2.0
Foreign Exchange ⁽³⁾	0.8	(0.7)	0.1	2.0
Net Impairments Provisions ⁽⁴⁾	(0.4)	(0.1)	(0.5)	(12.1)
Discontinued operations ⁽⁵⁾	(0.1)	0.1	-	-
Income (Tax)/benefit	-	(0.2)	(0.2)	4.3
Net Profit/(Loss) after Tax	(1.3)	(1.6)	(2.9)	(3.8)

* Restated HY14 results to reflect changes as a result discontinued operations.

- (1) The majority of income is being recognised from two assets, one of which is paying quarterly disbursements with the most recent payment received in August 2014. The balance of income is interest earned at an average rate of 3.62% per annum on average cash on deposit of \$17.4 million for the twelve months to 30 June 2014.
- (2) Operating expenses were higher for the year at \$4.2 million compared with \$2.6 million in 2013. The increase was due to higher legal and professional costs of approximately \$1.4 million associated with the acquisition of PRFG, the sale of Motor Finance Wizard, the recovery of the P&J loan and the response to OCP's takeover bid for Keybridge.
- (3) The Australian Dollar appreciated by approximately 1.5% against the US Dollar and depreciated by 3.0% against the Euro in the twelve months to June 2014. This led to a net unrealised gain in the value of Keybridge's unhedged foreign currency assets of \$0.1 million (2013: gain of \$2.0 million).
- (4) Since 30 June 2013, Keybridge has recognised a further \$0.5 million of net impairments across its portfolio, of which \$1.85 million is represented by the provision of the equity investment in PRFG and \$1.5 million was against the equity investment in the Spanish solar farm. An impairment of \$0.25 million was against a loan provided to a small ASX-listed entity, which entered voluntary administration in the second half of the financial year. The impairments were offset with a reversal of impairment of \$3.0 million against the property mezzanine loan.
- (5) Oceanic Shipping, an entity previously consolidated by Keybridge, was disposed of in February 2014. The result was neutral to Keybridge.

Performance By Asset Class

Infrastructure: *Total book value \$7.0 million.* In March 2008, Keybridge developed a 1.05MW solar photovoltaic electricity facility in southern Spain known as Totana. Although the plant has previously had some production issues that have been or are being rectified under warranty, the plant has been producing electricity in accordance with the original contract, and is generating regular income.

The original agreement with the Spanish government provided for a fixed feed-in tariff per kWh with partial CPI based increases, which was significantly above market electricity rates. In December 2010 the Spanish government placed a cap on the volumes able to receive this subsidised tariff.

More recently, the Spanish government has legislated additional changes to the revenue structure of all solar photovoltaic electricity, which we expect will further reduce the revenues that Keybridge is generating from its Totana plant. The legislation has not yet been ratified, and is currently being challenged by major industry players, but Keybridge decided during the year to recognise an impairment of \$1.5 million against its carrying value of the investment on the basis of the likely new revenue streams, once the legislation comes into effect.

Keybridge is continuing to actively seek a buyer for this investment as it is no longer considered a core asset.

Listed Equity: *Total book value \$6.3 million.* Keybridge has grown its Listed Equity investments from 7% of the portfolio at June 2013 to 16% at June 2014. The majority of investments have been small stakes in shares in ASX-listed entities, with the two substantial holdings being:

- A 19.1% investment in PTB Group Limited (PTB), which is a turbo prop aircraft parts and services supply organisation with operations in Queensland and New South Wales. This investment is marked-to-market at each balance date, which, as at 30 June 2014, resulted in a decline in value of \$0.8 million from 30 June 2013.
- A 19.85% investment in Aurora Funds Limited (AFV). Keybridge initially purchased 548,000 shares or 5% of the paid up capital in August 2013 and increased its holding to 2.2 million shares during the year.

Private Equity: *Total book value \$5.2 million.* Keybridge holds a limited recourse loan to RPE1 Investor LLC, a Colorado USA limited liability company, which holds units in a Private Equity Fund. This loan accrues interest at 14.5% per annum and has a maturity date of 31 December 2017. Keybridge's loan with a carrying value of USD4.8 million is secured by Republic Limited Partnership Capital interest in the Private Equity Fund. The Limited Partnerships interest in the Fund was valued at USD23.2 million as at 30 June 2014 of which Keybridge holds security over a 50% of the Limited Partners interest valued at approximately USD11.6 million.

Keybridge received no repayments from its Private Equity investment during the twelve months to 30 June 2014 and accrued \$0.4 million in income.

Property: *Total book value \$2.5 million.*

P&J Projects: In 2007 and 2008, Keybridge invested \$5.95 million in mezzanine loans against a residential and retail property development located in inner Sydney. These loans are currently in default and accumulating interest such that the current face value of the loans outstanding is approximately \$9.3 million. Keybridge had previously written off these loans, however, in February 2014, Keybridge was repaid approximately \$3.0 million as partial repayment.

Keybridge is currently pursuing legal action against the borrowers for the balance of the remaining loan and there may be further recovery from this asset in due course, however the Keybridge continues to carry the value at nil.

AMW: Keybridge provided a loan to a fund run by Ashe Morgan Winthrop, which invested in first ranking mortgage loans over commercial properties. Keybridge is currently the sole lender to the portfolio with three loans still outstanding. Two of the loans relate to a property in the Sydney suburb of Manly, which have been in Receivership since June 2009. Legal actions against the original valuer are being actively pursued. This portfolio is currently being carried at a value of \$2.2 million and is generating some income.

Lending: *Total book value \$1.8 million.* Keybridge achieved a significant result this financial year by being repaid \$10.5 million of a \$11.7 million written value loan to PRFG. This was accomplished by first acquiring the shares in PRFG via a scheme of arrangement in August 2013 and then selling its Motor Finance Wizard business in September 2013.

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

With the appointment of an Administrator, Keybridge was no longer required to consolidate the financial results of PRFG and therefore Keybridge has removed the assets and liabilities from the Statement of Financial Position for the twelve months to 30 June 2014. As previously announced, an impairment of \$1.85 million was applied to the carrying value of Keybridge's equity investment in PRFG.

At the beginning of the year, Keybridge was carrying the PRFG loan at a written down value of \$11.7 million. After repayments during the year of \$10.5 million, Keybridge has \$1.2 million remaining on the Balance Sheet at 30 June 2014 which was expected to be recovered via the sale of the underlying assets in AMX, which was agreed to by the Administrator prior to year end.

Since December 2013, Keybridge has provided new loans into four separate investments to the value of \$650,000. The investments are either highly liquid or short term in nature.

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

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

The three vessels were sold in February 2014 and Keybridge sold its shares in Oceanic Shipping and is no longer required to consolidate the financial results. Keybridge booked fees of \$0.3 million related to this transaction.