Keybridge Capital Limited and Controlled Entities

ABN 16 088 267 190

31 December 2010

Interim Financial Report

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Contents

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Directors' Report

Your Directors present their report together with the consolidated financial report of Keybridge Capital Limited (the "Company") and its controlled entities (the "Group") for the half-year ended 31 December 2010 and the independent auditor's review report thereon.

DIRECTORS

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

Executive Directors
Mark Phillips (Managing Director)
Mark Worrall

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

The above named directors held office during, and since the end of, the half year, except for:

Michael Perry - resigned 15 September 2010
Cass O'Connor - resigned 15 September 2010
Mark Worrall - appointed 16 September 2010
Peter Wood - appointed 15 October 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, shipping, infrastructure and property. The Company has not made any new investments or advanced any new loans since October 2008.

DIVIDENDS - KEYBRIDGE CAPITAL LIMITED

For the period to 31 December 2010, the Directors determined not to declare any dividends payable to shareholders. The Company does not expect to declare dividends in future periods until such time as its corporate debt is substantially repaid.

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

REVIEW OF OPERATIONS AND RESULTS

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

The Group's net loss after income tax attributable to its ordinary equity holders for the half-year to 31 December 2010 was $20.6 million. Operating revenue of $4.0 million was offset by:

- net impairment provisions of $3.8 million;
- a net unrealised foreign exchange loss of $10.0 million;
- a net realised foreign exchange loss of $3.0 million;
- operating expenses of $2.3 million; and
- borrowing costs of $6.7 million.

There were tax credits of $1.2 million.

The net impairment provisions reflect the reduction in the assessed realisable value of some investments due to continuing difficult economic conditions, notably in the shipping industry and, in the case of two investments, due to changes in government regulations.

The Group has a net foreign currency asset position. This means that translation losses are incurred when the Australian dollar appreciates in value against the US dollar and Euro. From 30 June 2010 to the end of December, the Australian dollar appreciated substantially against these currencies. This resulted in an unrealised foreign currency loss for the Company.

Operating expenses (excluding borrowing costs) were 13% lower in the half year to 31 December 2010 than in the prior corresponding period. The decrease was due mainly to lower employment costs as a result of a reduction in the number of employees.

Borrowing costs were 17% lower in the most recent period than in the prior corresponding period. This reflected a lower cost as a result of an appreciating Australian dollar and a lower level of borrowings due to repayments. The average cost of borrowings during the six months to December 2010 was 10.4% per annum, compared with just over 8% per annum in the corresponding period last year. This increase in the average cost of borrowings reflects:

- The imposition of an additional charge by the Company's banks in December 2009; and

- An increase in the percentage of borrowings being covered by higher cost interest rate swaps as repayments have occurred. These interest rate swaps mature during the half year to June 2011.

The Group holds derivative financial instruments in the form of interest rate swaps to partially hedge its Australian dollar and US dollar borrowings. The Group's derivative financial instruments are designated as cashflow hedges under AIFRS. As a result, changes in the fair value of the derivative instruments are recognised directly in equity to the extent that the hedge is effective. As at 31 December 2010, a derivative liability equal to $2.1 million was recognised in the Consolidated Statement of Financial Position representing the fair value of outstanding interest rate swaps.

INVESTMENTS AND LOANS

The pace of investment recoveries and loan repayments has slowed over the past six months as a result of the Company's remaining investments and loans being more difficult to realise.

We have seen improvement in conditions in aviation markets. Overall, however, secondary markets for the assets remaining in our portfolio continue to be characterised by relatively low levels of liquidity. Thus, realising Keybridge's outstanding investment and loans in the shorter term at acceptable prices remains challenging. Our expectation is that realisation of remaining investment and loans will occur over a period of approximately three years.

In the six months to 31 December 2010, repayments were received from seven loans. A majority of the repayments were in the Property and Aviation asset classes, with the remainder being in Lending and, to a minor extent, Shipping.

As at 31 December 2010, the Group's net investments and loans totalled $166 million, split across the following asset classes:

	$m	**% of Total**
Aviation	103	62%
Lending	35	21%
Shipping	17	10%
Infrastructure	7	4%
Property	4	2%
	166	100%

Aviation: The Company's aviation transactions predominantly involve preferred equity and mezzanine loan investments in passenger jet aircraft. Over the past two years, the aviation industry has been impacted by reductions in airline profitability, in the secondary market prices of aircraft and in the availability of senior bank debt. Despite this, the Group's aviation investments have, in the main, performed comparatively soundly. In the six months to December 2010, the Company realised $8.9 million from its aviation investments.

Lending: These investments consist of one senior and two subordinated loans to entities in a range of industries. Two Lending transactions were repaid in full in the six months to December 2010, realising $5.8 million.

Shipping: In Shipping, the Group has three separate shipping investments, supported by six vessels in the wet and dry bulk cargo sectors. Short-term charter rates and secondary market prices of vessels have fallen over the past couple of years. The shipping transactions in the Company's portfolio have senior debt facilities with loan-to-valuation covenants that have already been, or may in the future be, breached. Thus, the continuing support of the non-recourse senior lenders is important. All the charter parties in the Group's investments continue to meet their payment obligations on time. In the six months to December 2010, the Company realised approximately $0.7 million from its shipping investments.

Infrastructure: The Group has one remaining infrastructure investment, being an equity 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.

Property: The Group's property investments consist mainly of mezzanine loans secured by development projects and completed commercial units in eastern Australia. These investments have become impaired due principally to the slowdown in sales activity and the fall in prices in commercial markets in these locations. In the past six months, the Group realised $11.9 million from its investments in this sector.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No other significant changes have occurred during the half-year period ended 31 December 2010.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

Subsequent to balance date the Company has signed a provisional sales agreement to sell its interest in a unit trust which in turn has invested in a joint venture which operates a Chilean gold production company. The proceeds of the sale are expected to be USD2.1m. The sale is still subject to completion.

Keybridge has had discussions with a counterparty through which it acquired in 2006 and 2007 certain investments. These discussions have resulted in Keybridge and the counterparty coming to a settlement, the terms of which are confidential and cannot be disclosed. This settlement has had no significant impact on Keybridge's financial position.

No other matters have arisen since the end of the financial period 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 and results of operations.

ROUNDING OF AMOUNTS

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

Keybridge Capital Limited and Controlled Entities

ABN 16 088 267 190

Directors' Report

AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration is set out on page 5 and forms part of the Directors' Report for the half-year ended 31 December 2010.

Dated at Sydney this 10th day of February 2011

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

Mark Phillips
Managing Director

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

To: the directors of Keybridge Capital Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010 there have been:

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

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

KPMG

KPMG

Madeleine Mattera

Madeleine Mattera
Partner

Sydney

10 February 2011

Keybridge Capital Limited and Controlled Entities

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Condensed consolidated statement of comprehensive income
For the half-year ended 31 December 2010

	Note	*Consolidated* 31 Dec 2010 $'000	31 Dec 2009 $'000
Revenue and Income			
Fees		542	291
Interest income		3,283	14,121
Net realised loss on sale of trading assets		-	(334)
Unrealised gain on available for sale investments		175	114
Unrealised loss on revaluation of foreign currency assets		(28,257)	(22,191)
Net changes in fair value of cash flow hedges		(1,482)	(2,877)
Realised net foreign currency loss on disposal of investments		(1,520)	(2,134)
Net impairment provisions	8	(3,801)	(17,900)
Operating income		(31,060)	(30,910)
Expenses			
Administration expenses		(344)	(319)
Employment costs		(1,274)	(1,563)
Legal and professional fees		(614)	(692)
Other expenses		(87)	(107)
Results from operating activities		(33,379)	(33,591)
Unrealised foreign exchange gain on foreign currency borrowings		18,214	16,019
Finance costs		(6,662)	(8,024)
Net finance (costs)/income		11,552	7,995
Income tax (expense)/benefit	12	1,239	(13,569)
Loss for the period		(20,588)	(39,166)
Other comprehensive income/(loss), net of income tax			
Cash flow hedges:			
Effective portion of changes in fair value		1,853	1,713
Net amount transferred to profit or loss		1,037	2,014
Other comprehensive income/(loss) for the period, net of income tax		2,890	3,727
Total comprehensive loss for the period, net of income tax		(17,698)	(35,439)
		Cents	**Cents**
Basic loss cents per share		(11.96)	(22.76)
Diluted loss cents per share		(11.96)	(22.76)

The condensed notes on pages 10 to 20 are an integral part of these consolidated interim financial statements.

Keybridge Capital Limited and Controlled Entities

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Condensed consolidated statement of financial position
as at 31 December 2010

	Note	*Consolidated* 31 Dec 2010 $'000	30 June 2010 $'000
Cash and cash equivalents		11,235	6,136
Trading and other receivables		827	543
Loans and receivables - net		15,713	40,075
Available for sale investments		1,164	990
Other assets		171	54
Total current assets		29,110	47,797
Loans and receivables - net		148,722	184,646
Property, plant and equipment		324	387
Total non-current assets		149,046	185,033
Total assets		178,156	232,830
Payables		4,533	4,302
Loans and borrowings	11	110,491	145,120
Derivative liabilities	10	2,107	4,754
Total current liabilities		117,131	154,176
Total liabilities		117,131	154,176
Net assets		61,025	78,654
Equity			
Share capital		260,651	260,651
Reserves		(320)	(3,279)
Retained earnings/(losses)		(199,306)	(178,718)
Total equity attributable to equity holders of the Company		61,025	78,654

The condensed notes on pages 10 to 20 are an integral part of these consolidated interim financial statements.

Keybridge Capital Limited and Controlled Entities

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Condensed consolidated statement of changes in equity
For the half-year ended 31 December 2010

	Note	Share capital	Share based payment reserve	Treasury Share reserve	Cashflow hedge reserve	Retained earnings/ (losses)	Total
			$'000	$'000	$'000	$'000	$'000
The Company and its consolidated entities							
Balance at 1 July 2010		260,651	1,233	-	(4,512)	(178,718)	78,654
Total comprehensive income for the period							
Loss		-	-	-	-	(20,588)	(20,588)
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	-	1,853	-	1,853
Net change in fair value of cash flow hedges transferred to profit and loss, net of tax		-	-	-	1,037	-	1,037
Total other comprehensive income		-	-	-	2,890	-	2,890
Total comprehensive income for the period		-	-	-	2,890	(20,588)	(17,698)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Own shares acquired	13	-	-	(184)	-	-	(184)
Share based payments	13	-	253		-	-	253
Balance at 31 December 2010		260,651	1,486	(184)	(1,622)	(199,306)	61,025
The Company and its consolidated entities							
Balance at 1 July 2009		260,651	969	-	(11,244)	(128,785)	121,592
Total comprehensive income for the period							
Loss		-	-	-	-	(39,166)	(39,166)
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges, net of tax		-	-	-	1,713	-	1,713
Net change in fair value of cash flow hedges transferred to profit and loss, net of tax		-	-	-	2,014	-	2,014
Total other comprehensive income		-	-	-	3,727	-	3,727
Total comprehensive income for the period		-	-	-	3,727	(39,166)	(35,439)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Own shares acquired	13	-	-	-	-	-	-
Share based payments	13	-	(43)	-	-	-	(43)
Balance at 31 December 2009		260,651	926	-	(7,517)	(167,951)	86,109

The condensed notes on pages 10 to 20 are an integral part of these consolidated interim financial statements.

Keybridge Capital Limited and Controlled Entities

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Condensed consolidated statement of cash flows
For the six months ended 31 December 2010

	Consolidated	
	31 Dec 2010 $'000	31 Dec 2009 $'000
Cash flows from operating activities		
Fees received	50	121
Interest received	3,350	5,405
Payments to suppliers and employees	(2,641)	(2,915)
Interest payment on loan facility	(6,067)	(8,057)
Net income tax paid	-	(159)
Net cash used in operating activities	(5,308)	(5,605)
Cash flows from investing activities		
Loans and Receivables, advances and acquisition of other investments	(46)	(2,393)
Proceeds from sale/repayments of Loan and Receivables	27,319	24,833
Net cash from investing activities	27,273	22,440
Cash flows from financing activities		
Repayment of loans	(16,415)	(19,197)
Net cash from/(used) in financing activities	(16,415)	(19,197)
Net (decrease) in cash and cash equivalents	5,550	(2,362)
Cash and cash equivalents at 1 July	6,136	9,615
Effect of exchange rate fluctuations on cash held	(451)	(304)
Cash and cash equivalents at 31 December 2010	11,235	6,949

The condensed notes on pages 10 to 20 are an integral part of these consolidated interim financial statements.

1. Reporting entity

Keybridge Capital Limited (referred to as “Keybridge Capital” or the “Group”) is a company domiciled in Australia. The consolidated interim financial report of the Group as at and for the six months ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities.

The consolidated interim financial statements of the Group as at and for the six months ended 31 December 2010 is available upon request from the Group's registered office at Level 26, 259 George Street, Sydney NSW 2000 or at www.keybridge.com.au.

2. Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2010.

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

This consolidated interim financial report was approved by the Board of Directors on 10 February 2011.

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

(b) Going concern

The pace of investment realisations and loan repayments has slowed over the past six months as a result of the Company’s remaining investments and loans being more difficult to realise.

We have seen improvement in conditions in aviation markets. Overall, however, secondary markets for the assets remaining in our portfolio continue to be characterised by relatively low levels of liquidity. Thus, realising Keybridge’s outstanding investments and loans in the shorter term at acceptable prices remains challenging. Our expectation is that realisation of remaining investments and loans will occur over a period of approximately three years. 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.

A key objective for the Company in the current six month period will be extending the term of its corporate debt before the maturity of the debt on 2 June 2011. It is imperative that Keybridge achieves ongoing terms from its lenders that enable it to continue realising assets in the ordinary course. The Company has entered discussions with its banks about extending the final maturity of this loan facility with renegotiated terms and conditions. The Directors are of the opinion that negotiations are proceeding satisfactorily.

The Directors have acknowledged that realising the remaining investments and loans will take time given currently depressed secondary market prices. However, having regard to, amongst other things, cash flow forecasts over the term of the Company’s corporate borrowings, including the Company’s anticipated asset realisations over the next three years, the Directors have reached the conclusion that, based on all relevant facts, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable and is a going concern. This is confirmed in the Directors Declaration on page 21 of this Interim Financial Report.

3. Significant accounting policies

The accounting policies applied by the Group in this condensed consolidated interim report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2010.

4. Estimates

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

Except as described below, in preparing this condensed consolidated interim financial report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2010.

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 interim financial statements are described in:

Note 8 – Impairment provisions
Note 12 – Taxation

5. Financial risk management

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

Financial risk management is carried out by Management under policies approved by the Board. The policies are available on the Company's website at www.keybridge.com.au and discussed in further detail under Corporate Governance on pages 9 to 24 of the 2010 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 its 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.

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

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

- All the Group's investments are continuously monitored and reviewed by KBC Management with a formal report provided to the Board on a regular basis.

- Primary Approval Authority for transactions lies with the Board. The exception is that approval for any new funds being provided to existing investments is delegated to both the Chairman and Managing Director together provided the amount does not exceed $500,000 each 6 months and funds are required to protect the value of an existing KBC investment. Such approvals are to be reported to the next Board meeting following the date of approval.

The carrying amount of the Group's financial assets represents its maximum credit exposure. The significant reduction in exposure to credit risk in the six months to 31 December 2010 is primarily due to repayments from seven investments, revaluation of investments denominated in US Dollars and Euro and the recognition of further impairment provisions. The Group's maximum exposure to credit risk at the reporting date was:

	31 Dec 2010 $'000	**30 June 2010 $'000**
Cash (Australian Banks)	11,235	6,136
Aviation	102,790	136,004
Lending	35,433	37,961
Shipping	16,969	27,362
Infrastructure	7,220	10,551
Property	3,984	14,489
	177,631	232,503

The Group's aviation transactions predominately involve preferred equity and mezzanine loan investments in the narrow and wide body segments of the aviation market. Secondary market aircraft prices for aircraft have fallen over the past two years. There are signs emerging now of a recovery. Realisation of the Group's aviation investments is forecast to occur over the next 2-3 years.

5. Financial risk management (continued)

In Lending, the Group has three investments across different industries and comprise senior and subordinated loan exposures. One of the investments is making monthly payments of interest and the other two investments are currently paying no interest to Keybridge, although one of these may be realised through the course of 2011.

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

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

In Property, there are two remaining investments which involve mezzanine loans secured by second mortgages over residential development projects and completed commercial units. Both are located on the eastern seaboard of Australia.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group is presently in discussions to extend the term of its current bank loan. This will allow the Group to continue to manage the orderly realisation of investments and repayment of corporate debt. The Group has exceeded its minimum repayment obligations of $70.5 million due by 31 March 2011. The committed debt facility is fully drawn and reduces as repayments occur.

The Group manages liquidity risk via:

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

Cashflow forecasts are reported regularly to the AFRC.

Market risk

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

The Group is directly exposed to interest rate and equity risk to the extent of derivative liabilities $2.1 million (June 2010:$4.8 million) and available for sale investments of $1.2 million (June 2010:$1.0million).

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

Interest rate risk

In relation to the Group's corporate debt facility, interest rate swaps denominated in US and Australian dollars have been entered into as cash flow hedges. At 31 December 2010, the Group had interest rate swaps with notional contract amounts of US$69.8 million and A$25 million (unchanged from the amounts at 30 June 2010), representing 84% of drawn debt. The interest rate swaps are at base rates of 7.79% pa in Australian dollars and 5.68% pa in US dollars and mature in March 2011 and May 2011, respectively.

5. Financial risk management (continued)

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

Foreign currency risk

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

Part of the Group's corporate debt is denominated in US Dollars which acts to partially hedge the Group's exposure to US dollar investments. The Group has a natural hedge for 63% of its US dollar denominated investments. To the extent that the Group's exposure is not perfectly matched, the Company incurs translation losses when the Australian dollar appreciates in value against the US dollar and Euro and benefits from translation gains when the Australian dollar depreciates in value. Over the December half year, the Australian dollar appreciated against these other currencies and the loss arising on translation is recorded in the profit or loss statement.

Except as disclosed elsewhere in this report, other aspects of the Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial report for the year ended 30 June 2010.

6. Operating segments

Business segments

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

- *Property*: Includes loans supported by development and construction projects and other property related investments. The property projects underlying the Company's remaining investments are predominantly residential and commercial projects located in Australia.
- *Aviation*: Loans and other investments in commercial aircraft, leased for medium terms to airlines.
- *Shipping*: Loans and equity investments in vessels chartered for medium terms to shipping companies.
- *Infrastructure*: Loans and other investments in a renewable energy project in Spain.
- *Lending*: Senior secured loans and subordinated loans, to entities in a range of industries.
- *Other:* activities include bank interest and investments in US Securitisations which have had a book value of Nil since 30 June 2008 and as such this segment does not meet any of the quantitative thresholds for determining reportable segments in December 2010 or June 2010.

There is no integration between any of the reportable segments.

Keybridge Capital Limited and Controlled Entities

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Notes to the Consolidated Interim Financial Report
For the half year ended 31 December 2010

6. Operating segments (continued)

For the six months ended 31 December 2010

Business segments	Property		Aviation		Shipping		Infrastructure		Lending		Other		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Revenue and Income	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Fees	-	-	-	25	48	38	4	42	490	186	-	-	542	291
Interest income	132	641	1,104	9,317	-	753	536	1,890	1,451	1,444	60	77	3,283	14,121
Unrealised gain on available for sale	-	-	175	114	-	-	-	-	-	-	-	-	175	114
Unrealised loss on revaluation of foreign currency assets, net changes in fair value of cash flow hedges & realised foreign exchange gain on disposal of investments	(457)	(1,795)	(22,481)	(13,971)	(4,305)	(4,965)	(944)	(4,093)	(2,651)	(2,068)	(421)	(309)	(31,259)	(27,202)
Realised loss on investment realisation	-	-	-	-	-	-	-	(334)	-	-	-	-	-	(334)
Total Revenue and income	(325)	(1,153)	(21,202)	(4,515)	(4,257)	(4,175)	(404)	(2,496)	(710)	(438)	(361)	(233)	(27,259)	(13,010)
Less impairments	(615)	(6,677)	(3,444)	(3,930)	(5,401)	(7,432)	(2,255)	(949)	-	-	-	-	(11,715)	(18,988)
Add reversed impairments	2,386	-	-		-	-	-	1,047	5,497	-	31	42	7,914	1,089
Reportable segment loss before income tax	1,446	(7,830)	(24,646)	(8,446)	(9,658)	(11,607)	(2,659)	(2,398)	4,787	(438)	(330)	(191)	(31,060)	(30,910)

Segment Assets	Property		Aviation		Shipping		Infrastructure		Lending		Other		Consolidated	
	Dec 2010	June 2010	Dec 2010	June 2010	Dec 2010	June 2010	Dec 2010	June 2010	Dec 2010	June 2010	Dec 2010	June 2010	Dec 2010	June 2010
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Gross Segment assets	4,599	19,716	109,284	139,818	30,757	37,323	11,438	12,850	35,728	38,330	-	-	191,806	248,037
Less impairment provisions	(615)	(5,227)	(6,494)	(3,814)	(13,788)	(9,961)	(4,218)	(2,299)	(295)	(369)	-	-	(25,410)	(21,670)
Net Segment assets	3,984	14,489	102,790	136,004	16,969	27,362	7,220	10,551	35,433	37,961	-	-	166,396	226,367

6. Operating segments (continued)

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

Revenues	**31 Dec 2010 $'000**	**31 Dec 2009 $'000**
Total revenue/(operating loss) for reportable segments	(27,259)	(13,010)
Impairments (net of reversals)	(3,801)	(17,900)
Consolidated revenue/(operating loss)	(31,060)	(30,910)
Profit or loss		
Total profit/(loss) for reportable segments	(31,060)	(30,910)
Unallocated amounts: other corporate expenses	(2,319)	(2,681)
Unallocated amounts: net finance (costs)/income	11,552	7,995
Consolidated loss before income tax	(21,827)	(25,596)

Revenues	**31 Dec 2010 $'000**	**30 June 2010 $'000**
Assets		
Total assets for reportable segments	166,396	226,367
Other unallocated amounts	11,760	6,463
Consolidated total assets	178,156	232,830
Liabilities		
Other unallocated amounts	117,131	154,176
Consolidated total liabilities	117,131	154,176

7. Seasonality of operations

The Group's segments are not impacted by seasonal fluctuations, other than in aviation, where foreign airlines are typically less profitable in the northern hemisphere winter. In turn, this may impact their cashflow and ability to meet lease payments. On the whole, seasonal factors have not materially impacted the Group's financial results for the six months ended 31 December 2010.

8. Impairment provisions

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

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

8. Impairment provisions (continued)

In assessing the carrying value of loans and receivables consideration includes:

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

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.

Net impairment provisions of $3.8 million have been recorded in the six months to 31 December 2010.

The effects of the global financial downturn continued to be felt throughout the period, especially in the shipping markets in which the Group has invested. As newly-built ships enter the market, this has the effect of putting downward pressure on values. This has impacted the carrying values of investments in our shipping portfolio, with new provisions of approximately $5.4 million being taken.

Towards the end of 2010, the Spanish Government undertook a series of austerity measures in an attempt to reduce its budget deficit. It announced that it will place a cap on the amount of electricity for which solar facilities can receive the subsidised feed-in tariff. This has impacted negatively the value of our remaining infrastructure investment by approximately $2.2 million.

The Group was able to write-back a net amount of $1.8 million on its property investments as a result of realising higher than book value on some repaid transactions.

Carrying values have also changed for two other investments which, on balance, have resulted in a net write-back of approximately $2.0 million.

- In one Lending transaction, a prior period provision has been partially reversed due to more positive developments for that investment.

- In one Aviation transaction, a further provision has been taken due to the possible, but not yet confirmed, default by one airline lessee.

The balance of loans and receivables as at 31 December 2010 was as follows:

	Loans and Receivables	
	Dec 2010 $'000	June 2010 $'000
Loans and Receivables - gross	189,845	246,390
less: allowance for impairments	(25,410)	(21,669)
Balance at end of period	164,435	224,721

8. Impairment provisions (continued)

The movement in the allowance for impairment during the six months to 31 December 2010 was as follows:

	Allowance for impairment	
	Dec 2010 $'000	June 2010 $'000
Balance at 1 July	21,669	133,380
Impairment loss recognised	11,715	32,379
Impairment reversal	(7,914)	(6,946)
Investments written off	(60)	(137,144)
Balance at end of period	25,410	21,669

9. Equity accounted investments in associates

The Group's share of net loss in its equity accounted investments in associates for the six months ended 31 December 2010 was $1.0 million loss (December 2009: $3.1 million loss). The loss relates to one of the Group's equity accounted investments, being Bridge Infrastructure Capital Pty Limited (BIC). The Group owns 100% of the ordinary shares in BIC. The Group's partner in BIC owns 100% of the redeemable preference shares. This accounting loss was not recognised in the results for the half year to December 2010 as the balance of the Groups investment is nil.

The Groups has additional investments in BIC made by way of loans. The Group has recognised impairments against one loan in Infrastructure and one loan in Shipping. As at 31 December 2010, the Group's carrying amount in the four investments, total $24.2 million and is recognised in Loans and Receivables.

10. Derivative liabilities

	31 Dec 2010 '000	30 Jun 2010 '000
Interest rate swaps	2,107	4,754

The Group uses interest rate swaps to hedge variable rate loans to fixed rates of interest. These are designated as cash flow hedges. As at 31 December 2010, the fixed rate of interest under the interest rate swaps are above market interest rates. As a result the instrument is recognised as a derivative liability.

11. Loans and borrowings

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

The key terms and conditions of the loan facility include:

- maturity of 2 June 2011;
- a review event requiring a minimum level of cash income;
- interim repayments totalling $70.5 million during the period to March 2011, which have been met.
- proceeds from investment income and asset realisations to be applied to meet operating expenses, interest expense and to reduce corporate borrowings;
- borrowing margin of 3.75% per annum; and
- a fee of 1.75% per annum which accrues monthly and is payable on final maturity of the secured bank loans.

The Company has entered discussions with its banks about extending the maturity date of this loan facility with renegotiated terms and conditions. The Directors are of the opinion that negotiations are proceeding satisfactorily.

Refer to Note 5 for further information about exposure to financial risks and liquidity.

Consolidated and Company

$'000	Currency	Nominal interest rate	Year of Maturity	31 December 2010 Face value	31 December 2010 Carrying amount	30 June 2010 Face value	30 June 2010 Carrying amount
Secured bank loan	AUD	8.62%	2011	23,687	23,687	27,111	27,111
Secured bank loan	USD	4.69%	2011	86,805	86,805	118,009	118,009
Total interest-bearing liabilities				110,491	110,491	145,120	145,120

The nominal interest rates reflect the prevailing floating base interest rate at 31 December 2010 plus the margin on the Group and Company's secured bank loans of 3.75% per annum. The Group and Company has also entered into interest rate hedging arrangements. Refer Note 5 - Interest Rate Risk for further information.

12. Taxation

The Group has not recognised deferred tax assets (DTA's) in relation to impairment expenses at 31 December 2010. This approach is consistent with the accounting treatment at 30 June 2010. Unrecognised DTA's are permitted to be re-recognised in future periods to the extent they are considered probable of being utilised.

13. Related party disclosure

Related parties
There were no related party transactions during the six months ended 31 December 2010.

Directors and key management personnel
Other than normal remuneration for directors, there were no other transactions with directors and key management personnel during the six months ended 31 December 2010.

12. Related Party Disclosure (continued)

Director and Employee Share Scheme (the 'Share Scheme' or 'Employee Shares')

In December 2009, the Group's Board approved a new remuneration plan covering the two financial years to 30 June 2011. The plan comprises cash retention payments totalling $0.4 million in Year 1 and $0.5m in Year 2 and the issue or on market purchase of up to 4.15 million Keybridge Capital Limited ordinary shares ('Shares') in Year 1 and 4.6 million Shares in Year 2. If Year 2 shares were to be issued this would represent approximately 4% of the shares on issue. Release of the cash payments and issue of Shares is subject to meeting documented key performance indicators and vesting conditions.

The key performance indicators for Year 2 for the cash retention payments and share awards relate to:

- Refinance the bank debt;
- Profitability;
- Stakeholder and Board management; and
- Development of post-June 2011 business plan.

The Managing Director is entitled under his employment contract to cash and share retention payments (in addition to his base remuneration) for the 2010 and 2011 financial years. In September 2010 he requested consideration of his cash and share retention entitlements for 2010 to be deferred and incorporated as part of his potential entitlements for 2011.

The Board accepted this offer from the Managing Director. It resulted in the Managing Director being paid nil cash and share retention amounts for the financial year ended 30 June 2010. In 2011, the aggregate of the 2010 and 2011 entitlements will be payable based on the extent to which the performance conditions for the 2011 financial year are satisfied.

The Managing Director's issue of Shares are subject to shareholder approval. The Group intends to seek shareholder approval at the Group's Annual General Meeting in September 2011.

For employees who satisfied all key performance indicators for Year 1 the Company purchased on-market 1.95 million shares at an average of 9.4 cents a share and are designated as Treasury Shares in equity.

The financial statements to 31 December 2010 include a provision of $0.4 million relating to the cost of the retention payments and an expense of $0.3m relating to the share based payments.

14. Subsequent event

Subsequent to balance date the Group has signed a provisional sales agreement to sell its interest in a unit trust which in turn has invested in a joint venture which operates a Chilean gold production company. The proceeds of the sale are expected to be USD2.1m. The sale is still subject to completion.

Keybridge has had discussions with a counter party through which it acquired in 2006 and 2007 certain investments. These discussions have resulted in Keybridge and the counter party coming to a settlement, the terms of which are confidential and cannot be disclosed. This settlement has had no significant impact on Keybridge's financial position.

No other matters have arisen since the end of the financial period 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 and results of operations.

Keybridge Capital Limited and Controlled Entities

ABN 16 088 267 190

Directors' Declaration

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

1. the financial statements and notes set out on pages 6 to 20, are in accordance with the *Corporations Act 2001*. including:

   (a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the six month period ended on that date; and

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

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

Signed in accordance with a resolution of directors:

M Phillips

Mark Phillips
Managing Director

Sydney, 10 February 2011

KPMG

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

Report on the financial report

We have reviewed the accompanying interim financial report of Keybridge Capital Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2010, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the interim period ended on that date, notes 1 to14 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.* As auditor of Keybridge Capital Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the interim period ended on that date; and

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

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 31 December 2010, the consolidated entity has a net current asset deficiency of $88,021,000 which is mainly due to the current classification of the Group's loan facility. The Group's corporate debt facility is set to mature on 2 June 2011.

The Group have entered into negotiations to extend the loan facility with amendments to the terms and conditions. At the date of this report, the negotiations have not been concluded and documentation has not yet been executed, and therefore the final outcome cannot presently be determined with certainty. As outlined in note 2(b), the directors are of the opinion that negotiations are proceeding satisfactorily.

As set out in Note 2(b), the Directors expect that the Group will reduce the debt levels through loan repayments and investment realisations and then refinance the balance at maturity. The Group's ability to settle its amended debt obligations and fund daily operations is largely contingent on the ability to realise assets at expected values and within expected timeframes as well as the ongoing receipt of interest and investment income. The outcome of these transactions and the willingness of the banks to refinance any remaining debt at June 2011 cannot presently be determined with certainty, although, as outlined in note 2(b), the directors expect these transactions to occur in time to meet the above repayment obligations and cash flow needs. For these reasons the financial report has been prepared on a going concern basis. The existence of these uncertainties may cast doubt about the Group's ability to settle its debts as and when they fall due and to realise its assets at their carrying amounts.

KPMG

KPMG

Madeleine Mattera

Madeleine Mattera
Partner

Sydney

10 February 2011