Keybridge Capital Limited and Controlled Entities

ABN 16 088 267 190

31 December 2011
Condensed Consolidated
Interim Financial Report

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Directors' Report

Your Directors present their report together with the condensed consolidated financial report of Keybridge Capital Limited (the "Company") and its controlled entities (the "Group") for the half-year ended 31 December 2011 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 Worrall (Managing Director) - appointed Managing Director on 18 November 2011
Mark Phillips (Managing Director) - resigned 18 November 2011

Non-Executive Directors
Irene Lee (Chairman)
Peter Wood
Nicholas Bolton - appointed 30 December 2011

PRINCIPAL ACTIVITIES

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

DIVIDENDS - KEYBRIDGE CAPITAL LIMITED

For the period to 31 December 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 substantially repaid.

The Group 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 with 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 2011 was $4.1 million. Operating revenue of $5.3 million was adjusted by:

- a net realised foreign exchange gain of $2.6 million;
- a net unrealised foreign exchange loss of $2.2 million;
- operating expenses of $1.7 million;
- borrowing costs of $1.6 million; and
- impairment provision of $6.5 million.

The impairment provision reflects the prudent reduction in the assessed realisable value of one of the Company's investments due to continuing difficult economic conditions in the global shipping industry.

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 or that translation gains are achieved when the Australian Dollar depreciates against the US Dollar and Euro. From 30 June 2011 to the end of December, the Australian Dollar depreciated against the US Dollar and appreciated against the Euro. This resulted in a net foreign currency gain for the Group of $0.4 million.

Operating expenses (excluding borrowing costs) were 24% lower in the half year to 31 December 2011. The decrease was due mainly to lower legal costs as a result of the disposal of investments that had previously required a significant amount of legal services.

Borrowing costs were 77% lower in the half year to 31 December 2011 as a result of a materially lower level of borrowings due to repayments achieved via investment realisations. The average cost of borrowings during the six months to December 2011 was also significantly reduced to 4% per annum, compared with 10.4% per annum in the corresponding period last year. This decrease in the average cost of borrowings reflects the:

- removal of the additional fee by the Group's banks in October 2011;
- repayment of interest rate swaps which matured in May 2011; and
- conversion of all remaining debt into a US Dollar facility.

INVESTMENTS AND LOANS

The pace of investment recoveries and loan repayments has been relatively strong over the past six months. This is as a result of the Company's ongoing focus on seeking to realise best possible value from the Group's remaining investments and loans, in order repay the Group's corporate debt facility as quickly as possible. There is no certainty, however, that this level of realisations will be maintained.

Over the last six months, shipping markets have continued to weaken as charter rates and secondary prices for vessels continues to decline. Aviation markets have remained flat and are still experiencing relatively low levels of liquidity especially for older aircraft, as exists in the Company's portfolio. Thus, realising Keybridge's outstanding investments and loans in the shorter term at acceptable values remains challenging.

In the six months to 31 December 2011, repayments were received from five transactions. The majority of the repayments came from the Company's Aviation assets, with the remainder from Lending and, to a lesser extent, Shipping segments.

As at 31 December 2011, the Group's investments and loans totalled $84.5 million, split across the following asset classes:

	$m	% of Total
Aviation	44.6	53%
Lending	20.7	25%
Property	9.6	11%
Infrastructure	7.0	8%
Shipping	2.6	3%
	84.5	**100%**

Aviation: The Group's aviation transactions predominantly involve mezzanine loan investments in passenger jet aircraft. Aviation markets have remained flat in the past six months with aircraft valuations either declining or showing little improvement, especially in older aircraft assets. 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 six months, the Group however, received USD46.9 million of repayments from its aviation portfolio as a result of the sale of the underlying aviation leasing business of its largest asset in the portfolio in October 2011.

Lending: These investments consist of 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 transaction is not currently paying cash distributions to Keybridge. Over the past six months however, Keybridge received $15.2 million of repayments from its lending transactions, with the material lending realisation achieving an outcome greater than its book value by USD2.2 million. It is noted however, that there remains a residual warranty liability on that realisation of up to USD1.6 million, which matures prior to financial year end.

Property: Keybridge has two material property loans remaining. One is a subordinated loan secured by a multi-staged development in Zetland, Sydney. This development is meeting its required milestones, although it is likely to take at least a further 18-24 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, however the collateral value of the mortgage pool is presently sound. In the past six months, Keybridge received no income or repayments from its property loans and receivables, as all proceeds are being paid to the respective senior lender.

Shipping: The demand for vessels in certain sectors, particularly tankers, is failing to keep pace with the number of new ships being built. Most shipping markets have seen a steady decline of charter rates and asset values during the last six months, leading to the cash flow position of many ship owners becoming severely stressed. This has resulted in a material increase, over the past few months, of the number of foreclosures by banks, and bankruptcy filings by shipping companies.

While Keybridge has investments in six vessels, only one material shipping transaction remains on the balance sheet, being an equity investment in, and loan to, associates that own three ships chartered to a shipping company for a remaining term of 15 months. The ships are employed in the chemical/palm oil and petroleum products sectors, and the charter is performing according to its terms.

Another charterer in an underlying shipping investment has recently requested to terminate its bareboat charter obligations 20 months prior to maturity of the underlying 5-year charter term due to the distressed state of the markets resulting in this party suffering significant losses. Keybridge is currently working with its investment partner to reach an acceptable early termination outcome with the charterer, and then to source new employment for the vessel in the short term to maximise its ongoing long term value. While at this date, no acceptable early termination agreement has been reached, the Company has reduced its carrying value for this investment to nil in light of the continuing worsening shipping market and the likely losses to be incurred arising from any agreement to early terminate the present charter arrangement.

In the six months to December 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 $6.5 million.

The Company continues to manage its remaining shipping assets, even if the value of the investment has been impaired in full, so as to hold out possible option value in the future recovery of this asset class and to a possible future realisation of these assets.

Infrastructure: The Group has one remaining infrastructure investment, being a loan to, and an equity accounted investment in, a solar electricity facility in Spain. In the six months to December 2011, the Group received no principal repayments from this infrastructure investment.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

No significant changes have occurred during the half-year period ended 31 December 2011.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

No 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. The Company is in negotiation with its banks to seek extension or refinancing terms to its corporate debt facility, however as at the date of signing of this Interim Financial Report, no terms have yet been agreed. The Company remains confident of acceptable terms being agreed during the next couple of months, well before the maturity date of the facility on 2 June 2012.

ROUNDING OF AMOUNTS

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

AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration is set out on page 5 and forms part of the Directors' Report for the half-year ended 31 December 2011.

Dated at Sydney this 14th day of February 2012.

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

Irene Lee
Chairman

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

To: the directors of Keybridge Capital Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2011 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

14 February 2012

Keybridge Capital Limited and Controlled Entities

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Condensed consolidated statement of comprehensive income
For the six months ended 31 December 2011

	Note	31 Dec 2011 $'000	31 Dec 2010 $'000
Revenue and income			
Fees		45	542
Interest income		2,979	3,283
Unrealised gain/(loss) on other investments		(58)	175
Net realised gain on disposal of investments		2,272	-
Other income		89	-
Operating income		5,327	4,000
Expenses			
Net impairment expenses	7	(6,502)	(3,801)
Unrealised gain/(loss) on revaluation of foreign currency assets		2,863	(28,257)
Realised net foreign currency gain/(loss) on foreign currency assets		2,594	(1,520)
Administration expenses		(327)	(344)
Employment costs		(1,122)	(1,274)
Legal and professional fees		(209)	(614)
Other expenses		(107)	(87)
Results from operating activities		2,517	(31,897)
Net changes in fair value of cash flow hedges		-	(1,482)
Unrealised foreign exchange gain/(loss) on foreign currency borrowings		(5,072)	18,214
Finance costs		(1,554)	(6,662)
Net finance (costs)/income		(6,626)	10,070
Loss before income tax		(4,108)	(21,827)
Income tax benefit	10	-	1,239
Loss for the period		(4,108)	(20,588)
Other comprehensive income, net of income tax			
Cash flow hedges:			
Effective portion of changes in fair value		-	1,853
Net amount transferred to profit or loss		-	1,037
Other comprehensive income for the period, net of income tax		-	2,890
Total comprehensive income for the period, net of income tax		(4,108)	(17,698)
		Cents	**Cents**
Basic loss (cents per share)		**(2.39)**	**(11.96)**
Diluted loss (cents per share)		**(2.39)**	**(11.96)**

The notes on pages 10 to 21 are an integral part of these condensed consolidated interim financial statements.

Keybridge Capital Limited and Controlled Entities

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Condensed consolidated interim statement of financial position as at 31 December 2011

	Note	31 Dec 2011 $'000	30 Jun 2011 $'000
Cash and cash equivalents		3,907	5,040
Trading and other receivables		258	273
Loans and receivables - net		32,424	17,335
Other investments		1,397	1,456
Other assets		190	61
Total current assets		38,176	24,165
Loans and receivables - net		50,420	126,105
Property, plant and equipment		198	259
Total non-current assets		50,618	126,364
Total assets		88,794	150,529
Payables		622	1,373
Loans and borrowings	9	43,234	99,709
Total current liabilities		43,856	101,082
Total liabilities		43,856	101,082
Net assets		44,938	49,447
Equity			
Share capital		260,651	260,651
Reserves		-	1,557
Retained earnings/(losses)		(215,713)	(212,761)
Total equity attributable to equity holders of the Company		44,938	49,447

The notes on pages 10 to 21 are an integral part of these condensed consolidated interim financial statements.

Keybridge Capital Limited and Controlled Entities

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Condensed consolidated statement of changes in equity
For the six months ended 31 December 2011

	Share capital	Share based payment reserve	Treasury share reserve	Cashflow hedge reserve	Retained earnings/ (losses)	Total
		$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2011	260,651	1,557	-	-	(212,761)	49,447
Total comprehensive income for the period						
Loss for the period	-	-	-	-	(4,108)	(4,108)
Other comprehensive income						
Total comprehensive income for the period	-	-	-	-	(4,108)	(4,108)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share based payments	-	(313)	-	-	-	(313)
Unearned share based payments transferred to profit and loss	-	(88)	-	-	-	(88)
Reserves transferred to retained earnings	-	(1,156)	-	-	1,156	-
Balance at 31 December 2011	260,651	-	-	-	(215,713)	44,938
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	-	-	-	-	(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	-	-	(184)	-	-	(184)
Share based payments	-	253	-	-	-	253
Balance at 31 December 2010	260,651	1,486	(184)	(1,622)	(199,306)	61,025

The notes on pages 10 to 21 are an integral part of these condensed consolidated interim financial statements.

Keybridge Capital Limited and Controlled Entities

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Condensed consolidated interim statement of cash flows
For the six months ended 31 December 2011

	31 Dec 2011 $'000	31 Dec 2010 $'000
Cash flows from operating activities		
Fees received	48	50
Interest received	2,590	3,350
Payments to suppliers and employees	(2,845)	(2,641)
Interest payment on loan facility	(1,691)	(6,067)
Other income	2,361	-
Net cash from (used in) from operating activities	463	(5,308)
Cash flows from investing activities		
Loans and receivables, advances and acquisitions of other instruments	-	(46)
Proceeds from sale/repayments of loans and receivables	59,969	27,319
Net cash from investing activities	59,969	27,273
Cash flows from financing activities		
Repayment of loans and borrowings	(61,547)	(16,415)
Net cash used in financing activities	(61,547)	(16,415)
Net (decrease)/increase in cash and cash equivalents	(1,115)	5,550
Cash and cash equivalents at 1 July	5,040	6,136
Effect of exchange rate fluctuations on cash held	(18)	(451)
Cash and cash equivalents at 31 December	3,907	11,235

The notes on pages 10 to 21 are an integral part of these condensed consolidated interim financial statements.

1. Reporting entity

Keybridge Capital Limited (referred to as "Keybridge Capital" or the "Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2011 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and jointly controlled entities.

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

2. Basis of preparation

(a) Statement of compliance

The condensed consolidated interim financial statements are a general purpose financial report prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2011.

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 14 February 2012.

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 Company achieved two significant repayments in the first half of the financial year, however the pace of investment realisations and loan repayments for the second half of the financial year will likely slow down as a result of the Company's remaining investments and loans being more difficult to realise in the short term.

The secondary markets for the remaining assets 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. The Company's expectation is that realisation of remaining investments and loans will occur over a period of approximately two to 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 refinancing or extending the term of the corporate debt before the maturity of the debt on 2 June 2012. 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 amended terms and conditions. The Directors are of the opinion that negotiations are proceeding satisfactorily. It is noted that the Company has in the past reached acceptable terms with its banks on its previous extension negotiations, and the Company is in a materially stronger financial position than it has been for the past three years.

2. Basis of preparation (continued)

(b) Going Concern (continued)

As at the 31 December 2011, the Group has net current liabilities of $5,680,491 arising from the fact that the Company's corporate debt facility remains a current liability due to its existing maturity date. The Directors acknowledge that before maturity of the corporate debt facility on 2 June 2012, the Company expects to extend the existing lending arrangements or to refinance outstanding borrowings.

The Directors continue to acknowledge that realising the remaining loans and receivables will take time given current market conditions in which the Company has invested. 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 maturity extension and loan realisations 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 Directors' Declaration on page 22 of this Condensed Consolidated Interim Financial Report.

(c) Use of estimates and judgements

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

Except as described below, in preparing this condensed consolidated interim financial report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2011.

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

- Note 7 - Impairment provisions
- Note 10 -Taxation

3. Significant accounting policies

The accounting policies applied by the Group in this Condensed Consolidated Interim Financial Report are the same as those applied by the Group in its Consolidated Financial Report as at and for the year ended 30 June 2011.

4. Financial risk management

The Group seeks to minimise the effects of financial risks arising in the normal course of the Group's business. The markets in which the Group has invested, on the whole, remained subdued for the first half of 2012 financial year. Approximately 56% 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 from the effects of the down turn in financial markets following the global financial crisis.

Financial risk management is undertaken by management under policies approved by the Board. During the six months to 31 December 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 objective to achieve an orderly realisation of loans and investments and in accordance with the terms of the debt facility.

4. Financial risk management (continued)

The Company's policies are available on the Company's website at www.keybridge.com.au. The Group's policies are discussed in further detail under Corporate Governance on pages 9 to 21 of the 2011 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.

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 continues to be irrelevant.

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

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

- All loans and investments are continuously monitored and reviewed by Keybridge management with a formal report provided to the Board on a regular (monthly) basis.
- Primary Approval Authority for transactions lies with the Board. Only the Board can approve a new transaction. The only exception to this is that the approval of new funds for existing investments is delegated to both of the Chairman and Managing Director, provided the amount does not exceed $500,000 in any six month period and the funds are required to protect the value of an existing Keybridge investment. Such approvals are to be reported to the next Board meeting following the date of approval. No such delegation was exercised over the six months to 31 December 2011.

4. Financial risk management (continued)

Exposure to credit risk (continued)

The carrying amount of the Group's financial assets represents its maximum credit exposure. The significant reduction in exposure to credit risk in the six months to 31 December 2011 is primarily due to the realisation of assets, and further recognition of impairment provisions in Shipping. The Group's maximum exposure to credit risk at the reporting date was:

	31 Dec 2011 $'000	30 Jun 2011 $'000
Cash (Australian Banks)	3,907	5,040
Aviation	43,150	84,445
Lending	20,720	32,940
Property	9,609	9,609
Infrastructure	7,027	7,480
Shipping	2,578	9,220
	86,991	148,734

The Group's most significant counterparty exposure relates to one aviation investment (30 June 2011: two aviation investments) which accounts for $43,150,000 of carrying amounts for the loans and receivables at 31 December 2011 (30 June 2011: $84,445,000).

The aviation transaction is a cross-collateralised mezzanine loan supported by four wide body passenger aircraft. Three of these aircraft are leased to December 2014, with terms agreed for an extension to December 2018, and the fourth aircraft leased to December 2012. 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; however the counterparties to the existing leases are sound, well established airlines, who continue to perform their obligations as contracted.

In Lending, the Group has two transactions across different industries. These comprise a subordinated loan and a preferred equity investment. One of the loans continues to make monthly payments of principal and interest. The other investment is currently not paying cash distributions to Keybridge, but is however adequately secured by the underlying portfolio of assets.

In Property, Keybridge has two material property loans remaining. One is a subordinated loan secured by a multi-staged residential development in Zetland, Sydney. This development is meeting its required milestones and stages completed to date have been successfully sold at budgeted price levels, although it is likely to take at least a further 18-24 months for Keybridge's loan 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 no repayments from its property loans and receivables as all proceeds are paid to the respective senior lender.

At 31 December 2011 one other loan in the property portfolio has reached its contracted maturity, however Keybridge has agreed in-principle to extend the facility for a further period of time. The loan is currently impaired in full.

As previously mentioned, most shipping markets have seen a continued steady decline of charter rates and asset values during the six months to December 2011. The cash flow situation for many ship owners has started to become severely stressed, and the number of foreclosures by banks and bankruptcy filings by shipping companies has started to increase materially over the past few months. This will continue to increase the Company's exposure to credit risk in its shipping investments.

4. Financial risk management (continued)

Exposure to credit risk (continued)

While Keybridge has investments in six vessels, only one material shipping transaction remains on the balance sheet, being an equity investment in and loan to associates that own three ships chartered to a shipping company for a remaining term of 15 months. The ships are employed in the chemical/palm oil and petroleum products sectors, and the Charter is performing according to its terms.

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 in this transaction. The investment continues to perform, albeit at production levels lower than contracted, and Keybridge is presently negotiating the necessary warranty rectification programs to correct the production issues so that offers for the acquisition of this asset can be sought.

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 31 December 2011 the Group's secured bank loans were recorded as current liabilities due to the facility being due for repayment on 2 June 2012. For further information refer note 2(b) Going Concern.

The Group met all required minimum debt repayments in the period to 31 December 2011 with no further interim repayment milestones required prior to maturity on 2 June 2012.

The Group manages liquidity risk via:

- compliance with repayment obligations under the secured bank loans;
- monitoring forecast and actual cash flows, including asset sales and cash investment income; and
- maintaining a minimum cash balance.

Cash flow forecasts for the next 12-18 months are reported regularly to the Board and AFRC.

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 Company is exposed to equity risk on shares in an ASX-listed company to the amount of $1.4 million (June 2011: $1.5 million). The Company adjusts the carrying value of this asset on a mark-to-market basis.

The Group is also 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 values for the underlying assets within each of the investments.

4. Financial risk management (continued)

Interest rate risk

The Group is exposed to interest rate risk where its committed debt facilities, including non-recourse debt financing and cash, are at variable rates of interest. 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.

Foreign currency risk

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

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

5. Business segments

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

- *Aviation:* Comprises loans to aviation leasing companies that are supported by aircraft leased for a variety of terms to various airlines.
- *Lending:* Senior secured loans and subordinated loans to entities in a range of industries.
- *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.
- *Infrastructure:* Loans and equity investments in renewable energy projects.
- *Shipping:* Loans to and equity investments in ships and ship holding companies chartered for various terms to ship operating companies.

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

5. Business segments (continued)

For the six months ended 31 December 2011

	Aviation		Lending		Property		Infrastructure		Shipping		Consolidated	
	2011	**2010**	**2011**	**2010***	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Operating income	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Fees	-	-	-	490	-	-	5	4	40	48	45	542
Interest income	1,106	1,104	1,339	1,451	-	132	443	536	-	-	2,888	3,223
Unrealised gain/(loss) on other investments	(58)	175	-	-	-	-	-	-	-	-	(58)	175
Unrealised gain/(loss) on disposal of investments	97	-	2,175	-	-	-		-		-	2,272	-
Other income	-	-	89	-	-	-	-	-	-	-	89	-
Toal operating income	1,145	1,279	3,603	1,941	-	132	448	540	40	48	5,236	3,940
Less impairments	-	(3,444)	-	-	-	(615)	-	(2,255)	(6,502)	(5,401)	(6,502)	(11,715)
Add: reversed impairments	-	-	-	5,528	-	2,386	-	-	-	-	-	7,914
Unrealised gain/(loss) on revaluation of foreign currency assets, net changes in fair value of cash flow hedges and realised foreign exchange gain on disposal of investments	4,234	(22,481)	1,134	(3,072)	-	(457)	(418)	(944)	525	(4,305)	5,475	(31,259)
Reportable segment profit/(loss) before income tax	5,379	(24,646)	4,737	4,397	-	1,446	30	(2,659)	(5,937)	(9,658)	4,209	(31,120)

Business segments	**Aviation**		**Lending**		**Property**		**Infrastructure**		**Shipping**		**Consolidated**	
	31-Dec	**30-Jun**	**31-Dec**	**30-Jun**	**31-Dec**	**30-Jun**	**31-Dec**	**30-Jun**	**31-Dec**	**30-Jun**	**31-Dec**	**30-Jun**
	2011	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**	**2011**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Gross Segment assets	47,994	103,176	21,015	33,219	11,099	11,099	11,133	11,832	30,120	29,123	121,361	188,450
Less impairment provisions	(3,447)	(17,276)	(295)	(279)	(1,490)	(1,490)	(4,106)	(4,352)	(27,542)	(19,904)	(36,880)	(43,301)
Net Segment assets	44,547	85,900	20,720	32,940	9,609	9,609	7,027	7,480	2,578	9,220	84,481	145,149

* The comparative segment result has been restated to conform with the 30 June 2011 annual report presentation.

5. Business segments (continued)

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

	31 Dec 2011 $'000	31 Dec* 2010 $'000
Operating income		
Total operating income for reportable segments	5,236	3,940
Bank interest received	91	60
Consolidated operating income	5,327	4,000
Profit or loss		
Total profit or loss for reportable segments	4,209	(31,120)
Other profit or loss	74	60
Unallocated amounts: other corporate expenses	(1,765)	(2,319)
Unallocated amounts: net finance costs	(6,626)	11,552
Consolidated loss before income tax	(4,108)	(21,827)

	31 Dec 2011 $'000	30 June 2011 $'000
Assets		
Total assets for reportable segments	84,481	145,149
Other unallocated amounts	4,313	5,380
Consolidated total assets	88,794	150,529
Liabilities		
Total liabilities for reportable segments	-	-
Other unallocated amounts	43,856	101,082
Consolidated total liabilities	43,856	101,082

* Certain comparative amounts have been reclassified to conform with the current period's presentation.

6. 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 cash flow 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 2011.

7. Impairment provisions

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

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

7. 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.

Impairment provisions of $6.5 million have been recorded in the six months to 31 December 2011 relate to one shipping transaction.

As mentioned before, a charterer in an underlying shipping investment has requested to terminate its bareboat charter obligations 20 months prior to maturity of the underlying 5-year charter term. While at this date, no agreement has been reached, the Company has reduced its carrying value for this investment to nil in light of the continuing worsening shipping market and the likely losses to be incurred arising from any agreement to early terminate the present charter arrangement.

This factor is responsible for the Group's assessment of further impairment losses of $6.5 million for the period ending 31 December 2011 financial year (30 June 2011: $16.1 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 would be written-back. There were no write-backs for the six months to 31 December 2011.

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

	Gross 31-Dec 2011	Impairment 31-Dec 2011	Net 31-Dec 2011	Gross 30-Jun 2011	Impairment 30-Jun 2011	Net 30-Jun 2011
	$'000	$'000	$'000	$'000	$'000	$'000
Not past due	114,233	(35,390)	78,843	169,629	(41,811)	127,818
Past Due 180-365	1,490	(1,490)	-	1,490	(1,490)	-
More than one year	4,000	-	4,000	15,622	-	15,622
Total assets/(liabilities)	119,723	(36,880)	82,843	186,741	(43,301)	143,440

7. Impairment provisions (continued)

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

	Loans and Receivables	
	31-Dec 2011 $'000	**30-Jun 2011 $'000**
Balance at 1 July	43,301	21,669
Impairment loss recognised	6,502	30,564
Impairment write-back in income statement	-	(14,493)
Foreign exchange movements on impairments	1,092	(3,705)
Loans realised/(written off)	(14,015)	9,266
Balance at end of period	36,880	43,301

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

In Aviation, the impairment has been recorded as specific impairment against the remaining loan. This loan reflects the diminution of aircraft values within the portfolio of aircraft on the basis of independent current and base value assessments.

In Lending, one of the two remaining investments has been impaired. The investment is a preferred equity investment in a private equity fund secured and cross-collateralised by controlling interests in five unlisted US manufacturing companies. The specific impairment reflects the lower value of the underlying businesses, exacerbated by delays in the prospects for 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 previously been raised. As discussed herein, the latest impairment arises due to a charterer in an underlying shipping investment requesting early termination of its bareboat charter, exposing the Company to the present depressed charter rates and values should agreement be reached on the early termination request.

In Property, one loan has previously been impaired in full due to continued delays in realising sales of underlying completed commercial properties and the fact that it may be necessary for the counterparty to sell the balance of the properties in one line.

In Infrastructure, a specific impairment against the sole remaining transaction relates to a reduction in value of the solar investment due to past production shortfalls and the reductions in the feed-in tariff received from the sale of energy as a result of changes made by the Spanish government in December 2010.

8. 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 2011 was $1.1 million loss (December 2010: $1.0 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 (OSC) and Ocean Star Limited (OSL). This accounting loss was not recognised in the results for the six months ended 31 December 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 for subsequent investment in shipping and the solar infrastructure asset, a loan to OSC and a loan to OSL. The Group has recognised impairments against one loan in Infrastructure and three loans in Shipping. As at 31 December 2011, the Group's carrying amount in the loans to associates totals $8.3 million (June 2011: $16.6 million) and is recognised in Loans and Receivables. The Group has no additional commitments as a result of the associate's equity being negative.

9. Company loans and borrowings

Loans and borrowings consist of a syndicated loan facility provided to the Group by 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 secured bank loans include:

- Denominated in US Dollars;
- Maturity date of 2 June 2012;
- Cash sweep requires all surplus cashflow being used to make repayments to the banks; and
- Margin above US LIBOR of 3.75% pa.

Refer to Note 4 for further information about exposure to financial risks and liquidity.

	31 Dec 2011 $'000	30 Jun 2011 $'000
Current liabilities		
Secured bank loans	43,234	99,709
	43,234	99,709

$'000	Currency	Nominal interest rate	Year of Maturity	31 December 2011 Face value	31 December 2011 Carrying amount	30 June 2011 Face value	30 June 2011 Carrying amount
Secured bank loan	USD	4.04%	2012	43,234	43,234	99,709	99,709
Total interest-bearing liabilities				43,234	43,234	99,709	99,709

The nominal interest rates relate to the prevailing floating base interest rate at 31 December 2011 including the margin. Refer Note 4 - Interest Rate Risk for further information.

10. Taxation

The Group has not recognised deferred tax assets (DTAs) in relation to impairment expenses at 31 December 2011. This approach is consistent with the accounting treatment at 30 June 2011. Unrecognised DTAs are permitted to be re-recognised in future periods to the extent they are considered probable of being utilised.

11. Share-based payments

Employee Equity Plan (Plan)

The Plan was initiated in December 2009 to cover the years ended 30 June 2010 and 30 June 2011. This Plan has ceased and there is presently no equity plan for the year ended 30 June 2012.

Subsequent to the release of the 2011 Annual Report, actual remuneration paid under the Plan to senior executives for the 2011 financial year was determined to be lower than that recorded in the financial accounts.

The Board determined that the following adjustments be made to the amounts awarded as incentive, retention and share-based payments for each senior executive in the year ended 30 June 2011:

- 75% of each entitlement to be paid;
- No shares to be allocated in satisfaction of the share-based payments; and
- In lieu of the shares, cash to be paid at an equivalent of approximately 6.5 cents per share.

11. Share-based payments (continued)

For details of the previous Plan, refer to the Consolidated Financial Report as at and for the year ended 30 June 2011.

Movement in performance rights

Current	Date of grant	Number of rights granted prior periods	Number of rights lapsed [(a)]	Total number of rights granted	Vesting date [(b)]	Number of rights vested in period to 31-Dec-2011 [(c)]	Number of rights vested in prior periods
Mark Phillips	8-Oct-10	4,033,333	(1,008,333)	3,025,000	31-Aug-11	3,025,000	-
Employees - Year 2 grant	29-May-10	1,200,000	(300,000)	900,000	31-Aug-11	900,000	-
Employees - Year 2 grant	26-Mar-10	1,166,667	(291,667)	875,000	31-Aug-11	875,000	-
Employees - Year 1 grant	29-May-10	175,000	-	175,000	31-Aug-10	-	175,000
Employees - Year 1 grant	26-Mar-10	1,775,000	-	1,775,000	31-Aug-10	-	1,775,000
		8,350,000	(1,600,000)	6,750,000		4,800,000	1,950,000

(a) Performance rights lapse where performance conditions are not satisfied.
(b) 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.
(c) Shares were not purchased and performance rights were settled with cash at an equivalent share price of approximately 0.5 cents per share.

There are no performance rights outstanding at 31 December 2011. The expense recognised in the net profit/loss for the period ended 31 December 2011 was $81,521 (December 2010: $252,115) and the additional amount recognised in the share-based payment reserve was $81,521 (December 2010: $252,115).

12. Related party disclosure

Related parties

There were no related party transactions during the six months ended 31 December 2011.

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 2011.

13. Contingent liability

Following realisation of a lending transaction, the Group has a contingent liability in respect of warranties provided under the transaction. The maximum potential exposure under the terms of the realisation is USD1.6 million for which the Company will not be able to seek indemnity from any other party. The warranty period will expire prior to 30 June 2012.

14. Subsequent event

No 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 21, 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 2011 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:

Irene Lee
Chairman

Sydney, 14 February 2012

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 interim statement of financial position as at 31 December 2011, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed interim consolidated statement of cash flows for the interim period ended on that date, notes 1 to 14 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 2011 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Keybridge Capital Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2011 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*.

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 31 December 2011, the consolidated entity has a net current asset deficiency of $5,680,000 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 2012. The Group has entered into negotiations to extend the existing lending arrangements with amendments to the terms and conditions or to refinance outstanding borrowings prior to this time. The Group's ability to settle its amended debt obligations and fund daily operations is contingent on the ability to realise sufficient repayments from its portfolio of loans, receivables and assets at expected values within expected timeframes.

At the date of this report the negotiations have not been concluded and documentation has not yet been executed, 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 and the Group has in the past reached acceptable terms with its banks on previous extensions. 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.

KPMG

KPMG

Madeleine Mattera

Madeleine Mattera
Partner

Sydney

14 February 2012