

4 March 2016

Half Year Results

- **Net Asset Value of 21.7 cents per share at 31 December 2015**
 - **Dividend of 0.25 cents per share to be paid in April 2015**
 - **Net profit after tax attributable to ordinary shareholders of \$1.903 million. Earnings per share of 1.2 cents per share**
 - **\$4.220 million of investment realisations from historical assets**
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The Directors of Keybridge Capital Limited (ASX: KBC) regret the late lodgement of the Company's half-year report and acknowledge that this is unacceptable. There were a number of factors which impacted the lodgement including the suspension of our Managing Director, departure of the Company's CFO and introduction of new auditors, Deloitte Touche Tohmatsu.

Keybridge reports a net profit from continuing operation to members of \$1.903 million being a 195% increase on the previous corresponding half-year result.

From a strategic standpoint, the new financial year started with much promise, with Keybridge reporting its first full year of profit since FY08 and the acquisition of Aurora Funds Management Limited (Aurora).

Despite Keybridge providing additional funding to Aurora as part of a new business plan, Aurora failed to stem the persistent outflow of funds under management (FUM) that had been an issue for the business since prior to the acquisition. This has had an unfortunate impact requiring Keybridge to take an impairment to the intangible carrying value of the business on its balance sheet, and reducing the reported profit for Keybridge for the period by approximately \$1.883 million.

Keybridge notes that on 29 February 2016, Aurora suspended applications, redemptions and trading on the ASX in relation to several of its funds. The decision was made as a result of uncertainty surrounding the liquidity of an investment held in those funds. Keybridge is currently considering its strategic options in relation to its investment in Aurora.

Keybridge has otherwise continued to deliver largely according to plan in relation to its other diversified portfolio of assets. There were a number of strong outcomes in the historical portfolio with a highlight being the settlement of two litigation matters that had been costing Keybridge significant ongoing legal fees.

Other investments mainly in listed equities are marked-to-market with fluctuating results based on share price at the time of reporting. Keybridge believes that a number of these investments have strategic value that is not recognised in that market price and hopes to deliver some strong upside in due course.

Highlights

During the half-year to 31 December 2015, Keybridge:

- received \$3.020 million (before legal costs) as a result of two confidential settlements of legal proceedings to which it was not a direct party, but in which it held beneficial interests.
- acquired strategic interests in the following companies:
 - Metgasco (MEL), an ASX-listed company with significant cash backing.
 - Copper Strike (CSE) and NAOS (NAC), both ASX-listed companies that trade at a substantial discount to the value of their underlying assets.
- continued with its program to realise non-core assets, generating \$1.200 million in repayments from its historical property portfolio.

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Financial Results

Keybridge reports a net profit from continuing operation to members of \$1.903 million being a 195% increase on the previous corresponding half-year result.

Basic and diluted earnings per share for HY16 was 1.2 cents per share compared with basic and diluted earnings of 0.41 cents per share in the prior period.

Operating revenue increased approximately 252% on the previous corresponding period from \$1.903 million to \$6.697 million driven by the settlement of the two legal cases and the inclusion of six months of Aurora Funds Management fees.

In addition, the Group recorded a net unrealised mark-to-market gain of \$1.209 million from positions in the Group's portfolio of Listed Equity investments, including PTB Group, Copper Strike and HHY Fund.

Between 1 July 2015 and 31 December 2015, the Australian Dollar depreciated by 5.0% in value against the US Dollar, by 2.7% against the Euro and by 5.5% against the New Zealand Dollar. These movements resulted in net unrealised FX gains over the period of \$0.346 million (2014: gain of \$1.030 million).

Operating expenses (including recovery costs) increased from \$1.254 million to \$4.005 million primarily as a result of consolidating the Aurora business and the inclusion of costs incurred in relation to an investment in a technology start-up which is at a pre-revenue stage of its development.

Other one-off costs included legal fees in relation to the recovery of the two previously mentioned legal proceedings and other legacy assets.

The profit for the half year was also significantly impacted by an impairment to the carrying value of the investment in Aurora.

As a result of a decline in FUM from \$150 million at 30 June 2015 to \$106 million as at the end of January 2016, Keybridge has impaired the carrying value of the Aurora investment from \$3.797 million to \$1.576 million (after \$0.676 million deferred tax liability). Keybridge also reversed the potential earn out consideration of \$0.800 million which is no longer expected to be payable. The net impact is a \$1.884 million reduction to profit for the half year.

	2015	Restated
	\$'000	2014
		\$'000
Income	6,697	1,903
Operating expenses	(3,634)	(1,097)
Recovery costs	(371)	(157)
Operating profit before impairment and finance costs	2,692	649
Impairments	(1,884)	-
Finance costs	(196)	(3)
Profit before income tax	612	646
Income tax benefit	1,139	-
Profit from continuing operations	1,751	646
Non-controlling interests	152	-
Profit attributable to owners of Keybridge	1,903	646

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

Summary of Financial Position at 31 December 2015

Balance Sheet

As at 31 December 2015, the Group's balance sheet can be simplified as follows:

	\$'000
Investments	20,518
Historical investments	14,565
Cash and securities	3,862
Other assets	3,825
Liabilities	(8,266)
Shareholders' funds	34,504

Shareholders' funds equates to net asset value of approximately 21.7 cents per ordinary share at 31 December 2015 and net tangible assets of 20.3 cents per ordinary share after adjusting for \$2.252 million of intangibles in relation to the Aurora acquisition. These calculations are based on 158,812,327 shares on issue at 31 December 2015.

Investments

As at 31 December 2015, the value of Keybridge's investments by asset class was as follows:

	30 June 2015 \$ 000	31 December 2015 \$ 000	2015 % of total
Cash and securities	2,833	3,862	9.9%
Listed Equities	14,343	15,188	39.0%
Insurance	3,136	3,078	7.9%
Infrastructure	6,668	6,539	16.8%
Private Equity	6,529	6,870	17.6%
Property	2,259	1,156	3.0%
Intangibles	3,497	2,252*	5.8%
	39,265	38,945	100%

* Gross value of intangible. The net value of the intangible is \$1,576, being the gross value adjusted for the deferred tax liability of \$0.676 million.

Attachment 1 includes a summary of the performance of Keybridge's investments by asset class.

Outlook

Keybridge is continuing its program of managing or selling its portfolio of assets with a view to maximising shareholder value.

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

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Performance By Asset Class

Listed Equity: *Total book value \$15.188 million.*

Keybridge's Listed Equities portfolio at 31 December totalled \$15.2 million (30 June 2015: \$14.3 million). The majority of these investments have been small shareholdings in companies listed on the ASX and international stock exchanges, with six strategic holdings being (at 31 December 2015, including Keybridge associates' holdings):

- 21.18% investment in Hasting High Yield Fund, now renamed HHY Fund. Aurora has been appointed as the Responsible Entity and Manager of the Fund. This investment is equity accounted as an investment in an associate.
- 18.5% (excluding associated holdings that Keybridge does not control and 20.35% including these associates) stake in Molopo (MPO) which was historically an oil and gas exploration and production company. MPO has exited all of its former oil production and exploration assets, and currently has a large cash balance with no debt, but is facing litigation in relation to previous trading activities. Keybridge considers that the current market valuation of MPO's shares trading on the ASX is well below the value of its likely cash backing after the litigation is settled. In December 2014 MPO appointed Antony Sormann as Keybridge's representative on its Board.
- 19.86% investment in PTB Group Limited (PTB), a turbo-prop aircraft parts and services supply organisation with operations in Queensland and New South Wales. During the half year PTB appointed Antony Sormann as Keybridge's representative on its Board.
- 9.16% investment in Metgasco Limited (MEL), the company previously invested in oil and gas project, now with significant cash backing.
- 9.93% (including Keybridge associates holdings) investment in Copper Strike Limited (CSE), an exploration and mining Company with a significant investment in graphite explorer Syrah Resources Limited (SYR),
- 13.26% (including Keybridge associates holdings) investment in NAOS Absolute Opportunities Company Limited (NAC) a fund manager with listed and unlisted funds.

Insurance: *Total book value \$3.078 million*

Keybridge continues to hold an investment of NZD3.277 million (AUD3.078 million) in Foundation Life Holdings (FLH). FLH purchased all of the shares in Tower Life New Zealand, a non-core life insurance subsidiary of Tower Limited. The investment is structured to earn ongoing interest at 9% per annum, payable at the end of FLH's financial year, plus some upside over time. Keybridge received approximately NZD0.414 million (AUD0.389 million) in cash returns during the half year made up of both capital and interest payments.

Infrastructure: Solar Farm Asset: *Total book value \$6.539 million.*

In March 2008, Keybridge invested in the development, construction and ownership of a 1.05MWp twin-axis tracking solar photovoltaic (PV) park in the Murcia region in southern Spain, named Totana. Upon completion, the park was registered under Royal Decree (RD) 661/2007 which legislated that for a period of 25 years Iberdrola, the energy supplier, was required to purchase all electricity produced by the park at a government mandated inflated feed-in tariff.

The tariff is now based on what the Spanish government has deemed to be a reasonable fixed rate of return on capital invested for such an asset. The Spanish government has indicated that the next review of tariffs will not occur before 2017.

During the half-year, Keybridge received approximately EUR0.200 million (AUD0.305 million) in repayments which included both return of principal and interest payments

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Private Equity: *Total book value \$6.870 million.*

Keybridge holds a limited recourse loan (which is limited to the units held in RPE1) to RPE1 Investor LLC (RPE), a Colorado USA limited liability company, which holds units in a Private Equity Fund. This loan matures on 31 December 2017. The carrying value of Keybridge's loan of USD5.0 million is secured by RPE's interest in the Private Equity Fund. RPE's internal valuation of the Fund was USD32.9 million (AUD45.0 million) (as of end September 2015) with the value of the stake forming Keybridge's security interest valued at approximately USD16.5 million (AUD22.6 million).

Keybridge received no repayments and recorded no income, including interest from its Private Equity investment during the half-year

Property: *Total book value \$1.156 million.*

In October 2015, Keybridge received \$1.2 million in full repayment of one of its loans in the property portfolio, which was located in Melbourne. The remaining property loan is secured against a conference centre in the suburb of Manly, New South Wales.

Funds Management: *Total book value \$2.252 million. (Net \$1.576 after adjusting for a deferred tax liability (DTL) of \$0.676 million)*

Aurora is the Responsible Entity and Investment Manager for a number of alternative investment funds, including the:

- Aurora Fortitude Absolute Return Fund (AFARF);
- Aurora Absolute Return Fund (ASX:ABW);
- Aurora Dividend Income Trust (ASX:AOD);
- Aurora Global Income Trust (ASX:AIB);
- Aurora Property Buy-Write Income Trust (ASX:AUP); and
- HHY Fund (previously Hasting High Yield Fund) (ASX:HHY).

Since the acquisition in March 2015, Aurora's retail funds under management (FUM) have declined from \$150 million down to \$106 million as at 31 January 2016. This decline in FUM has required Keybridge to reassess the carrying value of the intangible asset recorded on the Balance Sheet as part of the transaction.

The intangible assets on acquisition were valued at \$3.797 million (including the full amount of the potential deferred settlement of \$0.800 million). Given the decline in FUM, Keybridge has determined that the value of the intangible is to be \$2.252 million, with an associated DTL of \$0.676 million, deriving an overall value of \$1.576 million. In terms of the accounting standards (IFRS 3 - Business combinations), an acquirer has a maximum period of 12 months from the date of acquisition to finalise the acquisition accounting treatment for the acquisition. After reviewing the provisional accounting treatment at 30 June 2015, additional available information and advice, Keybridge has restated the final acquisition accounting to reflect as an intangible rather than goodwill. This change has had impact on deferred tax, but reflects all the information that is known to finalise the acquisition accounting.

Keybridge notes that on 29 February 2016, Aurora suspended applications, redemptions and trading on the ASX in relation to the following funds:

- Aurora Absolute Return Fund (ASX:ABW);
- Aurora Fortitude Absolute Return Fund (AFARF);
- Aurora Global Income Trust (ASX:AIB);

The decision to suspend the funds was made as a result of uncertainty surrounding the liquidity of an investment held in those funds. Keybridge is currently considering its strategic options in relation to its investment in Aurora.

Keybridge's management currently believes that the decision to freeze has not impacted the carrying value of the investment in Aurora, but this may change as further information is made available.

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