

ASX MARKET ANNOUNCEMENT

Tuesday, 10 October 2017

ASX Codes : KBC; KBCPA

NET ASSET BACKING – SEPTEMBER 2017

Keybridge Capital Limited (ASX:KBC) gives notice that its unaudited after-tax Net Asset Backing as at 30 September 2017 was \$0.1489 per share.

Net Asset Backing

Net Asset Backing for Period Ending:	% Change	Current Month 30 September 2017	Previous Month 31 August 2017
Pre-Tax Net Asset Backing per share	+1.74%	\$0.1489	\$0.1464
Post-Tax Net Asset Backing per share	+1.74%	\$0.1489	\$0.1464
Based on total issued (listed) share capital ⁽¹⁾		158,812,237	158,812,237

Net Assets

	Current Month 30 September 2017		Previous Month 31 August 2017	
	\$'million	% of Net Assets	\$'million	% of Net Assets¹
Cash	3.823	16.20%	4.052	17.5%
Investment in Associated entity ⁽²⁾	2.972	12.60%	2.781	12.0%
Other Listed Securities	8.176	34.60%	7.846	33.8%
Managed Funds	0.221	0.90%	0.216	0.9%
Other Investments	0.100	0.40%	0.099	0.4%
Loan Receivables:				
• Private Equity ⁽³⁾	0.502	2.10%	0.498	2.2%
• Infrastructure ⁽⁴⁾	6.211	26.30%	6.164	26.5%
• Insurance ⁽⁵⁾	3.209	13.60%	3.145	13.5%
• Property ⁽⁶⁾	0.885	3.70%	0.885	3.8%
• Other ⁽⁷⁾	0.784	3.30%	0.775	3.3%
Other Assets ⁽⁸⁾	1.025	4.30%	1.017	4.4%
Convertible Redeemable Promissory Notes (ASX: KBCPA) ⁽⁹⁾	(4.051)	(17.10%)	(4.128)	(17.8%)
Provision for tax	-	-	-	-
Other Liabilities	(0.212)	(0.90%)	(0.108)	(0.5%)
Net Assets	23.645	100%	23.242	100%

Currency Exposure

% of Net Assets	Current Month 30 September 2017	Previous Month 31 August 2017
Australian Dollars	57%	56%
Euros	26%	27%
US Dollars	2%	2%
New Zealand Dollars	15%	15%

Major Investment Holdings

Security	ASX Code	Industry Sector	Current Month 30 September 2017		Previous Month 31 August 2017	
			Value \$'million	% of Net Assets	Value \$'million	% of Net Assets ¹
Molopo Energy Limited	MPO	Energy	6.442 ⁽⁸⁾	27.2%	6.442 ⁽⁸⁾	27.7%
HHY Fund	HHY	Financials	2.972	12.6%	2.781	12.0%
Metgasco Limited	MEL	Energy	1.256	5.3%	1.034	4.4%
Copper Strike Limited	CSE	Materials	0.447	1.9%	0.337	1.5%
Other managed funds	-	-	0.221	0.9%	0.216	0.9%
Other listed securities	-	-	0.031	0.1%	0.032	0.1%
Other unlisted securities	-	-	0.100	0.4%	0.099	0.4%
Total			11.469	48.5%	10.941	47.0%

Loan Receivable Holdings

Loan Exposure to Industry Sector	Current Month 30 September 2017 \$'million			Previous Month 31 August 2017 \$'million		
	Gross Value	Impairment	Carrying Value	Gross Value	Impairment	Carrying Value
Private Equity	6.497	(5.995)	0.502	6.494	(5.995)	0.499
Infrastructure	12.293	(6.082)	6.211	12.247	(6.082)	6.165
Insurance	3.209	-	3.209	3.145	-	3.145
Property	4.189	(3.304)	0.885	4.189	(3.304)	0.885
Other	0.858	(0.074)	0.784	0.848	(0.074)	0.774
Total	27.047	(15.455)	11.591	26.923	(15.455)	11.468

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ABOUT [KEYBRIDGE CAPITAL LIMITED](#) (ASX: [KBC](#))

KBC is an investment and financial services group with a diversified portfolio of listed and unlisted investments/loan assets including in the solar (Spain), private equity (US), life insurance (New Zealand), property and funds management sectors and strategic holdings in [HHY Fund](#) (ASX: [HHY](#)), [Molopo Energy Limited](#) (ASX: [MPO](#)) and [Metgasco Limited](#) (ASX: [MEL](#)). KBC is also the Investment Manager of HHY.

NOTES:

- (1) Net Asset Backing per share is based on Keybridge's total listed shares on issue and excludes unlisted shares issued under the Company's Executive Share Plan (for further details, refer KBC's [Notice of AGM](#) released on ASX on 30 October 2014 and KBC's ASX announcement dated 19 December 2014: [Appendix 3B and Further Detail Regarding Issuance of Loan Funded Shares](#)).

- (2) **Investment in Associated entity:** Keybridge's investment in [HHY Fund](#) (ASX:HHY), an Associated Entity (i.e. an entity in which the Company has a [greater than 20% interest](#) and is considered to have 'significant influence' over), is accounted for under the equity method in the consolidated financial statements. Under the equity method, the carrying amount of such investment is cost plus a share of the Associate Entity's net profit or loss (after tax) as provided to the Company by such Associated Entity (refer Note 20 (Investment in Associate entity) on page 66 of the Company's [2017 Full Year Report](#)). The Board has determined that where HHY's net tangible asset (NTA) backing is lower than the value calculated under the equity method as at month end, the lower NTA backing value will be adopted as the carrying value instead (based on the Directors' judgement).

As at month end, Keybridge's 24,066,455 units (28.12% interest) (31 August 2017: 23,963,729 units and 28.00%) in HHY have a carrying value of \$0.1235 per unit (\$2.972m) based on the equity method (31 August 2017: \$0.1161 per unit (\$2.781m) based on the equity method); this compares with HHY's last bid price on ASX of \$0.105 per unit (\$2.527m) (31 August 2017: \$0.10 per unit (\$2.396m)) and HHY's NTA backing of \$0.1239 per unit (\$2.972m) (31 August 2017: \$0.1164 per unit (\$2.789m)), as at month end.

- (3) **Loan Receivables - Private Equity:** Keybridge holds a US\$4.3m a limited recourse promissory note (**Note**) issued by RPE I Investor LLC (**RPE Investor**) (a subsidiary of [Republic Financial Corporation](#) (**RPC**), a US private investment company) secured (via collateral pledged) over RPE Investor's ~50% (Limited Partners') (contributed capital) interest in the Republic Private Equity I Limited Liability Limited Partnership, a private equity fund (managed by a related party to RPC) with investments in US based manufacturing/distribution businesses (**RPE Fund**). The principal and accrued interest (at 14.5% pa) under the note is repayable on maturity on 29 December 2017 (which is subject to extension/re-finance by mutual agreement of the parties). The Note arose out of a restructure in April 2013 where, as part of arrangements to exit legacy aviation investments (made whilst Keybridge was known as Mariner Bridge Investments Limited in 2006/2007) for US\$29.7 million cash, Keybridge sold its interest in the RPE Fund for US\$4.3 million fully funded by a Keybridge loan with recourse only to that asset sold (i.e. the Note).¹

On 24 August 2017, Keybridge received the RPE Fund's 30 June 2017 Quarterly Report (unaudited) (**June 2017 RPE Accounts**) which disclosed a significant reduction in the RPE Fund's gross asset position as well as notice from an RPC Executive (**Republic**) advising that it is 'highly unlikely that the Note will be satisfied on or before its scheduled maturity' (on 29 December 2017) and proposing a 3-year extension of the Note term or a 'buy-out' (retirement) of the Note for US\$0.394 million. In light of these matters, the Board reduced the carrying value of the Note (receivable) to US\$0.394 million (A\$0.511 million) as at 30 June 2017, which also resulted in Keybridge recognising a US\$4.611 million (A\$5.996 million) provision for impairment expense for the financial year ending 30 June 2017. This was advised in KBC's ASX announcement dated [25 August 2017: Update – Private Equity Loan Receivable](#), which contains further details concerning the June 2017 RPE Accounts and Republic's correspondence. Keybridge has not accepted Republic's proposal and is reviewing its position under the terms of the Note.

As at month end, the loan was carried (based on the Directors' judgement) at a valuation (net of impairments) of US\$0.394m (A\$0.502m) (31 August 2017: US\$0.394m (A\$0.498m)).

- (4) **Loan Receivables – Infrastructure:** In 2007/2008, Keybridge financed the development and construction of the Totana 1.05MWp Solar Photovoltaic Park in the Murcia region in southern Spain. Under Spanish [Royal Decree](#), Spanish energy supplier, [Iberdrola](#), (which has a 25 year (plus two 5 year extensions) purchase off-take arrangement) is required to purchase all electricity produced by Totana at Government mandated feed-in tariff prices plus (since [July 2013 under Royal Decree](#)) additional compensation payments (which are intended to provide a reasonable return on operations and capital invested for renewable energy sources and is subject to review every 3 years). The loan (which currently accrues interest at 7.25% pa) is repayable on maturity on or about December 2038.

As at month end, the loan was carried (based on the Directors' judgement) at a valuation (net of impairments) of €4.135m (A\$6.211m) (31 August 2017: €4.1m (A\$6.164m)).

¹ Refer KBC's ASX Announcements dated 1 May 2013: [Sale of Aircraft and Full Repayment of Corporate Debt Facility](#) and 10 April 2013: [Quarterly Update – January to March 2013](#)

- (5) **Loan Receivables – Insurance:** In [September 2014](#), Keybridge invested NZ\$3.8m (A\$3.4m) (via NZ\$0.109m (10.13%) equity and NZ\$3.691m notes) into [Foundation Life](#), to finance Foundation's acquisition of Tower Limited's life insurance business in New Zealand in 2014. Interest of 9% pa is payable under the note, which is redeemable by noteholders in 50 years (May 2064) (recently amended from 10 years) or by Foundation (from time to time). As at month end, the loan balance is NZ\$3.489m (A\$3.209m) (31 August 2017: NZ\$3.464m and A\$3.145m) and Keybridge retains its 10.13% equity interest in Foundation Life valued at cost of NZ\$0.109m (A\$0.10m) (31 August 2017: NZ\$0.109m and A\$0.099m).
- (6) **Loan Receivables – Property:** In September 2014, Keybridge took direct control of loans that were held in a fund (where Keybridge was the remaining sole lender) which invested in first ranking mortgage loans over commercial properties. Keybridge has registered mortgages over strata title lots comprising Conference Facilities at a Hotel located in Manly, Sydney as security for loans, which are owed by private companies (which are in liquidation). As at month end, the loan was carried (based on the Directors' judgement) at a valuation of A\$0.885m (31 August 2017: A\$0.885m) – this was based on an independent valuation received in respect of the lots in May 2016.
- (7) **Loan Receivables – Other:** Includes \$0.448m (31 August 2017: \$0.439m) accrued interest receivable in respect of Executive Share Plan (**ESP**) loans attributable to former Directors² - refer also Note 10(e) (Loans and Receivables) on page 54 and Note 15 (Share-based payments) on pages 62 and 63 of the Company's [2017 Full Year Report](#).
- (8) **Molopo Energy Limited (ASX:MPO):** On 7 July 2017, 3,666,285 shares in MPO (out of Keybridge's total holding of 49,683,828 shares) were vested in the Commonwealth (on trust for Keybridge) under the declaration and orders of the Takeovers Panel in the matter of Molopo Energy Limited 03R, 04R & 05R.³ These shares will be sold by ASIC (via an appointed investment bank or stock broker within 6 months from their engagement) with the proceeds of sale accounted to Keybridge (net of the costs, fees and expenses of the sale and any costs, fees and expenses incurred by ASIC and the Commonwealth (if any)). Keybridge remains the second largest shareholder in MPO with 46,017,543 shares (18.478%)⁴.
- As these vested 3.67 million MPO shares are held on trust for Keybridge pending sale by ASIC, Keybridge continues to recognise the shares as company assets at the same carrying value per share as its holding of 46 million MPO shares, less an estimate (provisionally 2.5%) in respect of selling costs.
- On 11 September 2017, Aurora Funds Management Limited (**AFML**) (as Responsible Entity of the [Aurora Absolute Return Fund](#) (ASX:ABW), [Aurora Global Income Trust](#) (ASX:AIB) and unlisted [Aurora Fortitude Absolute Return Fund](#) (**AFARF**)) announced that it had applied to the Federal Court for judicial review of the Takeovers Panel decision in the matter⁵ - Keybridge is reviewing its position vis a vis the appeal.
- (9) **Convertible Redeemable Promissory Notes:** (ASX: KBCPA): Keybridge issued 4,956,936 listed Convertible Redeemable Promissory Notes on [30 June 2015](#). The notes have a face value of \$1.00, pays interest at 7% pa and matures on 31 July 2020 (unless redeemed or bought-back by Keybridge earlier). Interest distributions are generally payable quarterly and have a franking credit component under Australian taxation law. Further details are contained in the [Prospectus dated 17 June 2015](#). As at month end, 4,401,047 notes are on issue (31 August 2017: 4,401,047 notes).

2 Refer KBC's [Notice of AGM](#) released on ASX on 30 October 2014 and KBC's ASX announcement dated 1 December 2014: [Results of AGM](#); KBC's ASX Announcement dated 19 December 2014: [Appendix 3B and Further Detail Regarding Issuance of Loan Funded Shares](#)) and KBC's ASX Announcement dated 28 April 2015: [Appendix 3B](#)

3 Refer Takeovers Panel Reasons for Decision dated [22 August 2017: Molopo Energy Limited 03R, 04R & 05R \[2017\] ATP 12](#); Takeovers Panel Media Release No. TP17/37 dated [10 July 2017: Molopo Energy Limited 03R, 04R & 05R - Orders](#); Takeovers Panel Media Release No. TP17/34 dated [30 June 2017: Molopo Energy Limited 03R, 04R & 05R – Declaration of Unacceptable Circumstances](#)

4 Refer KBC's ASX Announcement [11 July 2017: Change of Substantial Holder Notice for MPO](#)

5 Refer AIB's and ABW's ASX Announcement dated 11 September 2017: [AFARF, ABW and AIB – Takeovers Panel 03R, 04R & 05R](#)