

Tuesday, 14 May 2019

ASX Codes : KBC; KBCPA

# ASX MARKET ANNOUNCEMENT

## NET ASSET BACKING – APRIL 2019

Keybridge Capital Limited (ASX:KBC) gives notice that its unaudited after-tax Net Asset Backing as at 30 April 2019 was \$0.0791 per share.

### Net Asset Backing

| <b>Net Asset Backing for Period Ending:</b>                      | <b>%<br/>Change</b> | <b>Current Month<br/>30 April 2019</b> | <b>Previous Month<br/>31 March 2019</b> |
|------------------------------------------------------------------|---------------------|----------------------------------------|-----------------------------------------|
| Pre-Tax Net Asset Backing per share                              | -7.27%              | <b>\$0.0791</b>                        | \$0.0853                                |
| Post-Tax Net Asset Backing per share                             | -7.27%              | <b>\$0.0791</b>                        | \$0.0853                                |
| Based on total issued (listed) share capital <sup>(Note 1)</sup> |                     | 157,464,343                            | 157,464,343                             |

### Net Assets

|                                                                             | <b>Current Month<br/>30 April 2019</b> |                            | <b>Previous Month<br/>31 March 2019</b> |                                        |
|-----------------------------------------------------------------------------|----------------------------------------|----------------------------|-----------------------------------------|----------------------------------------|
|                                                                             | <b>\$'million</b>                      | <b>% of Net<br/>Assets</b> | <b>\$'million</b>                       | <b>% of Net<br/>Assets<sup>1</sup></b> |
| Cash                                                                        | 5.835                                  | 46.8%                      | 5.946                                   | 44.2%                                  |
| Investment in Associated entity <sup>(Note 2)</sup>                         | 1.558                                  | 12.5%                      | 1.634                                   | 12.2%                                  |
| Other Listed Securities                                                     | 6.469                                  | 51.9%                      | 6.676                                   | 49.7%                                  |
| Managed Funds                                                               | 0.114                                  | 0.9%                       | 0.117                                   | 0.9%                                   |
| Other Investments                                                           | 0.103                                  | 0.8%                       | 0.104                                   | 0.8%                                   |
| Loan Receivables:                                                           |                                        |                            |                                         |                                        |
| • Private Equity <sup>(Note 3)</sup>                                        | 0.560                                  | 4.6%                       | 0.555                                   | 4.1%                                   |
| • Insurance <sup>(Note 4)</sup>                                             | 3.293                                  | 26.4%                      | 3.311                                   | 24.6%                                  |
| • Property <sup>(Note 5)</sup>                                              | 0.885                                  | 7.1%                       | 0.885                                   | 6.6%                                   |
| • Other <sup>(Note 6)</sup>                                                 | 0.574                                  | 4.6%                       | 0.497                                   | 3.7%                                   |
| Other Assets <sup>(Note 7)</sup>                                            | 1.114                                  | 8.9%                       | 1.123                                   | 8.4%                                   |
| Convertible Redeemable Promissory Notes<br>(ASX: KBCPA) <sup>(Note 9)</sup> | (7.680)                                | (61.6%)                    | (7.200)                                 | (53.6%)                                |
| Provision for tax                                                           | -                                      | -                          | -                                       | -                                      |
| Derivatives                                                                 | (0.057)                                | (0.5%)                     | (0.002)                                 | <(0.01%)                               |
| Other Liabilities                                                           | (0.305)                                | (2.4%)                     | (0.206)                                 | (1.5%)                                 |
| <b>Net Assets</b>                                                           | <b>12.463</b>                          | <b>100%</b>                | <b>13.440</b>                           | <b>100%</b>                            |

**Currency Exposure**

| <b>% of Net Assets</b> | <b>Current Month<br/>30 April 2019</b> | <b>Previous Month<br/>31 March 2019</b> |
|------------------------|----------------------------------------|-----------------------------------------|
| Australian Dollars     | 59%                                    | 63%                                     |
| Euros                  | 4%                                     | 2%                                      |
| US Dollars             | 8%                                     | 8%                                      |
| New Zealand Dollars    | 29%                                    | 27%                                     |

**Major Investment Holdings**

| <b>Security</b>                            | <b>Code</b> | <b>Industry<br/>Sector</b> | <b>Current Month<br/>30 April 2019</b> |                                | <b>Previous Month<br/>31 March 2019</b> |                                            |
|--------------------------------------------|-------------|----------------------------|----------------------------------------|--------------------------------|-----------------------------------------|--------------------------------------------|
|                                            |             |                            | <b>Value<br/>\$'million</b>            | <b>% of<br/>Net<br/>Assets</b> | <b>Value<br/>\$'million</b>             | <b>% of<br/>Net<br/>Assets<sup>1</sup></b> |
| Pershing Square Holdings Ltd               | PSH         | Financials                 | 1.872                                  | 15.0%                          | 1.818                                   | 13.5%                                      |
| Metgasco Limited                           | MEL         | Energy                     | 1.569                                  | 12.6%                          | 1.715                                   | 12.8%                                      |
| HHY Fund                                   | HHY         | Financials                 | 1.558                                  | 12.5%                          | 1.634                                   | 12.2%                                      |
| Monash Absolute Investment Company Limited | MA1         | Financials                 | 1.191                                  | 9.6%                           | 1.147                                   | 8.5%                                       |
| Yowie Group Ltd                            | YOW         | Food, Beverage             | 1.067                                  | 8.6%                           | 1.146                                   | 8.5%                                       |
| Molopo Energy Limited <sup>(Note 8)</sup>  | MPO         | Energy                     | 0.658                                  | 5.3%                           | 0.732                                   | 5.4%                                       |
| Copper Strike Limited                      | CSE         | Materials                  | 0.111                                  | 0.9%                           | 0.118                                   | 0.9%                                       |
| Other managed funds                        | -           | -                          | 0.114                                  | 0.9%                           | 0.117                                   | 0.9%                                       |
| Derivatives                                | -           | -                          | (0.057)                                | (0.5%)                         | (0.002)                                 | <(0.01%)                                   |
| Other unlisted securities                  | -           | -                          | 0.103                                  | 0.8%                           | 0.104                                   | 0.8%                                       |
| <b>Total</b>                               |             |                            | <b>8.187</b>                           | <b>65.7%</b>                   | <b>8.529</b>                            | <b>63.5%</b>                               |

**Loan Receivable Holdings**

| <b>Loan Exposure to<br/>Industry Sector</b> | <b>Current Month<br/>30 April 2019<br/>\$'million</b> |                   |                           | <b>Previous Month<br/>31 March 2019<br/>\$'million</b> |                   |                           |
|---------------------------------------------|-------------------------------------------------------|-------------------|---------------------------|--------------------------------------------------------|-------------------|---------------------------|
|                                             | <b>Gross<br/>Value</b>                                | <b>Impairment</b> | <b>Carrying<br/>Value</b> | <b>Gross<br/>Value</b>                                 | <b>Impairment</b> | <b>Carrying<br/>Value</b> |
| Private Equity <sup>(Note 3)</sup>          | 6.555                                                 | (5.995)           | 0.560                     | 6.551                                                  | (5.995)           | 0.556                     |
| Insurance <sup>(Note 4)</sup>               | 3.293                                                 | -                 | 3.293                     | 3.311                                                  | -                 | 3.311                     |
| Property <sup>(Note 5)</sup>                | 4.189                                                 | (3.304)           | 0.885                     | 4.189                                                  | (3.304)           | 0.885                     |
| Other <sup>(Note 6)</sup>                   | 1.625                                                 | (1.051)           | 0.574                     | 1.532                                                  | (1.036)           | 0.496                     |
| <b>Total</b>                                | <b>15.662</b>                                         | <b>(10.350)</b>   | <b>5.312</b>              | <b>15.583</b>                                          | <b>(10.335)</b>   | <b>5.248</b>              |

**FOR FURTHER INFORMATION:**

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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 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), Metgasco Limited (ASX:MEL) and Yowie Group Ltd (ASX:YOW). 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 9 million unlisted shares currently issued under the Company's Executive Share Plan<sup>1</sup>.

On 3 January 2019, Keybridge announced its intention to undertake an on-market buy-back of up to 14,179,752 shares (being ~ 9% of 157,552,806 total shares on issue) on or before 17 January 2020. During the month, Keybridge bought back nil shares (31 March 2019: 88,463 shares; \$4,789 (inclusive brokerage)).

- (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 pages 71 and 72 of Keybridge's 2018 Annual 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 25,162,524 units (31.01% interest) (31 March 2019: 25,162,524 units; 31.01%) in HHY have a carrying value of \$0.0619 per unit (\$1.558m) based on the equity method (31 March 2019: \$0.0649 per unit (\$1.634m) based on the equity method); this compares with HHY's last bid price on ASX of \$0.044 per unit (\$1.107m) (31 March 2019: \$0.051 per unit (\$1.283m)) and HHY's NTA backing of \$0.0628 per unit (\$1.58m) (31 March 2019: \$0.0658 per unit (\$1.656m)) as at month end.

- (3) **Loan Receivables - Private Equity:** Keybridge holds a US\$4.3m 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 has not been repaid on maturity on 29 December 2017 (the parties are in discussions in relation to a mutually acceptable resolution of this matter).

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\$29.7m cash, Keybridge sold its interest in the RPE Fund for US\$4.3m fully funded by a Keybridge loan with recourse only to that asset sold (i.e. the Note).<sup>2</sup>

On 24 August 2017, Keybridge received notice from an RPC Executive (**Republic**) advising that it was '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\$0.394m. In light of these matters, the Board reduced the carrying value of the Note (receivable) to US\$0.394m (A\$0.511m). Refer also KBC's ASX announcement dated 25 August 2017: Update – Private Equity Loan Receivable.

Since August 2017, Keybridge has also received alternative proposals from Republic to settle the Note liability. As at the date of this announcement, Keybridge has not accepted Republic's proposals and the parties are in on-going discussions in relation to a mutually acceptable resolution of this matter. Additionally, Keybridge is also reviewing its rights under the Note to call upon the collateral pledged as security (ie. RPE Investor's interest in the RPE Fund). The Board has maintained the carrying value of the Note (receivable) at US\$0.394m (A\$0.56m) as at month end as it believes that the Note is recoverable on the basis that discussions with Republic are on-going and the Board believes that a value of at least the current carrying value will be recouped (31 March 2019: US\$0.394m (A\$0.555m)).

- (4) **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) or by Foundation (from time to time).

As at month end, the loan balance was NZ\$3.48m (A\$3.29m) (31 March 2019: NZ\$3.46m and A\$3.31m) and Keybridge retains its 10.13% equity interest in Foundation Life valued at cost of NZ\$0.109m (A\$0.103m) (31 March 2019: NZ\$0.109m and A\$0.104m).

- (5) **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 March 2019: A\$0.885m) – this was based on an independent valuation received in respect of the lots in May 2016.

1 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 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

- (6) **Loan Receivables – Other:** Includes (a) \$0.44m (31 March 2019: \$0.44m) loan advance to a former Director (in relation to legal costs incurred, pursuant to his Director's Deed); (b) \$0.051m (31 March 2019: \$0.057m) relating to the value of 3,666,285 MPO shares vested in the Commonwealth (on trust for Keybridge) pending sale (refer Note (8)); and (c) \$0.083m (31 March 2019: Nil) relating to the value of 1,054,148 YOW shares vested in the Commonwealth (on trust for Keybridge) pending sale<sup>3</sup>.
- (7) **Other Assets:** Includes (a) A\$0.318m (€0.2m) (31 March 2019: A\$0.317m (€0.2m)) deferred consideration receivable in October 2019 (18 months after the sale of the Totana Solar Plant asset<sup>4</sup>); and (b) \$0.447m secured loan (due and payable on 31 May 2019) (31 March 2019: \$0.447m).
- (8) **Molopo Energy Limited (ASX:MPO):** Molopo shares have been suspended from trading on ASX since 25 July 2017. At month end, Keybridge has adopted a carrying value (based on the Directors' judgement) of \$0.0143 (31 March 2019: \$0.0159) per share in respect of its Molopo shareholding.

Keybridge notes that the carrying value of the Company's investment in Molopo has been assessed based on the Keybridge Board's judgement of Molopo's estimated net asset backing having regard to the following matters:

- (a) MPO's gross cash position of A\$12.649 million as at 31 March 2019<sup>5</sup>;
- (b) MPO's estimated cash outflows for the April - June 2019 quarter being \$0.6m (or \$0.2m per month)<sup>6</sup>; and
- (c) A provision made in respect of Canadian litigation matters in the amount of C\$8.4m (A\$8.887m<sup>7</sup>) (31 March 2019: C\$8.4m; A\$8.87m<sup>8</sup>).

In Molopo's recently lodged 30 June 2018 Half Year Report<sup>9</sup> and 2018 Annual Report<sup>10</sup>, it was disclosed that:

- (a) Molopo had determined to write-back a prior C\$8.4m provision for Canadian litigation matters to nil and reflect the legal action as a contingent liability; and
- (b) No value had been ascribed by Molopo to its \$46.366m (30% shareholding) in Drawbridge Energy Holdings Ltd (Drawbridge)<sup>11</sup>.

Keybridge is currently reviewing the basis of Molopo's reversal of its C\$8.4m provision for Canadian litigation matters – Keybridge has determined to adopt a conservative position to continue to account for this prior provision in its assessment of Molopo's value (based on Molopo's estimated net asset backing).

Keybridge notes that if this C\$8.4m (A\$8.887m<sup>7</sup>) provision was not recognised by Keybridge (which would be consistent with Molopo's own treatment), the carrying value of Molopo would increase from \$0.0143 to \$0.05 per share. This would translate to an increase in Keybridge's own net asset backing by \$0.0125 from \$0.0791 to \$0.0904 as month end.

Keybridge will re-assess the carrying value of its investment in Molopo based on further information about Molopo's financial position, as released on ASX by Molopo.

On 7 July 2017, 3,666,285 shares in Molopo (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.<sup>12</sup> These shares will be sold by ASIC with the proceeds of sale accounted to Keybridge (net of the costs, fees and expenses of the sale). Keybridge remains the second largest shareholder in Molopo with 46,017,543 shares (18.478%)<sup>13</sup>. As these vested 3.67m 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 46m MPO shares.

For further information in relation to Molopo matters, refer to pages 11 to 19 of Keybridge's 2018 Annual Report.

- (9) **Convertible Redeemable Promissory Notes:** (ASX: KBCPA): Keybridge issued 4,956,936 and listed Convertible Redeemable Promissory Notes (CRPN) on 30 June 2015 and a further 3,598,983 CRPNs on 20 February 2019. 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 and ATO Class Ruling CR 2015/54. As at month end, 8,000,000 notes are on issue (31 March 2019: 8,000,000 notes).

3 Refer Takeovers Panel Media Release No. TP19/29 dated 26 April 2019: Yowie Group Ltd 01 & 02 – Declaration of Unacceptable Circumstances and Orders

4 Refer KBC's ASX announcement dated 30 April 2018: Sale of Totana Solar Plant Assets

5 Refer MPO Quarterly Cashflow Report and Quarterly Activities Report for the quarter ending 31 March 2019, both dated and released on ASX on 29 April 2019

6 As disclosed in MPO's Quarterly Cashflow Report for the quarter ending 31 March 2019 dated 29 April 2019 and released on ASX on 29 April 2019

7 Based on an exchange rate of A\$1.00 : C\$0.9441 (per IRESS) as at 30 April 2019

8 Based on an exchange rate of A\$1.00 : C\$0.9474 (per IRESS) as at 31 March 2019

9 Refer MPO Half Year Report for the half year ended 30 June 2018 released on ASX on 6 May 2019

10 Refer MPO 2018 Annual Report for the year ended 31 December 2018 released on ASX on 7 May 2019

11 For further relevant information in relation to Drawbridge in this regard, refer MPO's ASX announcements dated 8 May 2018: Molopo De-Risks By Diversifying its Oil and Gas Exploration Portfolio and 4 February 2019: Quarterly Activities Report the quarter ending 31 December 2018

12 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

13 Refer KBC ASX Announcement 11 July 2017: Change of Substantial Holder Notice for MPO