Keybridge Capital Limited and Controlled Entities

ABN 16 088 267 190

31 December 2015
Condensed Consolidated
Interim Financial Report

Keybridge Capital Limited and Controlled Entities
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Contents

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Directors' Report

Your Directors present their report together with the condensed consolidated financial report of Keybridge Capital Limited (Keybridge) and its controlled entities (the Group) for the half-year ended 31 December 2015 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:
Antony Sormann (Acting Managing Director)
Nicholas Bolton (Managing Director) (From 1 July 2015 to 17 December 2015)

Non-executive Directors:
Andrew Moffat (Chairman)
Bill Brown
Craig Coleman

PRINCIPAL ACTIVITIES

Keybridge Capital Limited is an investment and financial services group with a diversified portfolio of listed and unlisted investments in solar, private equity, life insurance, property and funds management assets amongst others.

DIVIDENDS - KEYBRIDGE CAPITAL LIMITED

Since the end of the period, the Directors have approved the payment of a fully franked interim dividend of 0.25 cents per share, totaling $0.398 million, to be paid on 15 April 2016.

TAXATION

Keybridge is subject to the Australian corporate income tax rate of 30%, however, Keybridge has accumulated tax losses of approximately $158 million, which have been used to offset profits made during the period such that no tax is payable. Keybridge also has $7.948 million of accumulated franking credits from prior periods, which it is able to attach to the dividends payable where profits are generated for the period.

REVIEW OF OPERATIONS AND RESULTS

Keybridge reports a net profit from operations 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 having had its first full year of profit since FY08 and having recently acquired Aurora Funds Management Limited (Aurora) as a foundation for building a core funds management business.

However, 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 by $1.884 million for the period.

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 the highlights being the three wins in litigation matters that had to date been costing Keybridge significant ongoing legal expenses. 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 the market price and hopes to deliver some strong upside in due course.

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Directors' Report

Key achievements

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

- Received over $3.050 million (before legal costs) as a result of two confidential settlements of legal proceedings to which it was not a direct party, but to which it held beneficial interests. These claims were carried at zero value prior to settlement.
- 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 $1.2 million in repayments from its historical Property portfolio.

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 1.20 cents per share compared with restated basic and diluted earnings per share of 0.41 cents in the prior period.

Various financial information relating to 31 December 2014 and 30 June 2015 had to be restated. Further details of the restatements and the amounts are included in Note 5 of the financial accounts.

Operating income 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 management fees.

In addition, the Group incurred a net unrealised mark-to-market gain of $1.209 million from positions in the Group's portfolio of Listed Equity investments, including unrealised gains on strategic stakes in 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. The movements in these currencies resulted in net unrealised FX gains over the period of $0.344 million (2014: gain of $1.030 million).

Operating expenses increased by approximately 219% for the reporting period from $1.254 million to $4.005 million, largely as a result of consolidating the Aurora business and the inclusion of expenses of $0.505 million incurred in relation to an investment made in a technology start-up, which is at pre-revenue stage of its development and in which Keybridge holds a 70% interest.

Other one-off costs incurred included legal fees in relation to the recovery of the two previously mentioned legal proceedings and in recovery of 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 Funds Management Limited (Aurora).

As a result of a decline in FUM in Aurora from $150 million at 30 June 2015 to $106 million as at the end of January 2016, Keybridge decided to impair the carrying value of the Aurora intangible from $3.797 million to $1.576 million (after adjusting for the deferred tax liability of $0.676 million). Keybridge also reversed the contingent consideration of $0.800 million which is no longer expected to be payable under earn out arrangements from the acquisition.

Details of the impairments relevant to the state of affairs of the Group are set out below and in note 11 of the Financial Statements.

INVESTMENTS

As at 31 December 2015, the value of the Group's net investments totaled $38.9 million as follows:

	31 December 2015		30 June 2015	
	$'000m	**% of Total**	**$'000m**	**% of Total**
Keybridge - Direct Investments				
Cash and securities	3,862	9.9%	2,833	7.2%
Listed Equities*	15,188	39.0%	14,343	36.5%
Life Insurance**	3,078	7.9%	3,136	8.0%
Historical Investments				
Solar**	6,539	16.8%	6,668	17.0%
Private Equity**	6,870	17.6%	6,529	16.6%
Property**	1,156	3.0%	2,259	5.8%
Funds Management				
Aurora Funds Management***	2,252	5.8%	3,496	8.9%
	38,945	100%	39,264	100%

* The total listed equities include 21.18% interest in HHY Fund which is accounted as an investment in associates in the statement of financial position.

** The total of these investments are presented in the statement of financial position as Loans and Receivables.

*** Gross value of intangible. The net value of the intangible is $1.576 million, being the gross value adjusted for the deferred tax liability of $0.676 million.

In the six months to 31 December 2015, Keybridge received principal repayments from three assets - one from the Property asset of $1.2 million, another from Life Insurance of $0.2 million and $0.3 million from the solar farm asset.

Direct Investments

Listed Equities

Keybridge's Listed Equities portfolio at 31 December totaled $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

Keybridge continues to hold an investment of NZD3.277 million (AUD 3.078 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 in FLH is structured to earn ongoing interest at 9% per annum, payable at the end of FLH's financial year. Keybridge received approximately NZD0.414 million (AUD0.389 million) in cash returns during the half year made up of both capital and interest payments.

Solar

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.

Private Equity

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

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

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 Deferred Tax Liability 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 an 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 several of its funds. Listed below is a list of the funds that have been frozen:

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

The decision to freeze 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.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There are no other matters 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.

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 6 and forms part of the Directors' Report for the half-year ended 31 December 2015.

Dated at Sydney this 4th day of March 2016.

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

Andrew Moffat
Chairman

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Keybridge Capital Limited
Level 4,
1 Alfred Street
Sydney NSW 2000

4 March 2016

Dear Sirs,

Keybridge Capital Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Keybridge Capital Limited.

As lead audit partner for the review of the financial statements of Keybridge Capital Limited for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Declan O'Callaghan
Partner
Chartered Accountants

Keybridge Capital Limited and Controlled Entities

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Condensed consolidated statement of comprehensive income
For the six months ended 31 December 2015

	Note	31 Dec 2015 $'000	Restated 31 Dec 2014 $'000
Revenue and income			
Fees	15	1,036	6
Interest income	18	592	1,177
Net unrealised gain/(loss) on listed equities	16	1,209	(275)
Net realised gain/(loss) on disposal of investments		50	(101)
Unrealised gain on derivative liabilities	24	88	-
Share of profits from investments in associates	9	118	-
Other income	17	3,172	35
Dividend income		88	31
Net gain on revaluation of foreign currency assets		344	1,030
Operating income		6,697	1,903
Expenses			
Impairment expenses	11	(1,884)	-
Administration expenses		(385)	(171)
Employment costs	19	(2,055)	(533)
Legal and professional fees	20	(589)	(322)
Fund management costs		(343)	-
Recovery expenses	21	(371)	(157)
Other expenses		(262)	(71)
Results from operating activities		808	649
Finance costs		(196)	(3)
Net finance (costs)		(196)	(3)
Profit before income tax		612	646
Income tax (expense)/benefit		1,139	-
Profit from continuing operations		1,751	646
Profit attributable to:			
Owners of Keybridge		1,903	646
Non-controlling interests		(152)	-
Total comprehensive income for the period		1,751	646
		Cents	**Cents**
Basic profit (cents per share)		**1.20**	**0.41**
Diluted profit (cents per share)		**1.20**	**0.41**

The notes on pages 11 to 29 are an integral part of these condensed consolidated interim financial statements.

Keybridge Capital Limited and Controlled Entities

ABN 16 088 267 190

Condensed consolidated statement of financial position
as at 31 December 2015

	Note	31 Dec 2015 $'000	Restated 30 June 2015 $'000
Cash and cash equivalents		3,862	2,833
Trade and other receivables		1,491	1,680
Loans and Receivables - net of impairment		250	1,754
Financial assets at fair value through profit or loss	25	10,419	10,791
Other assets		-	413
Total current assets		16,022	17,471
Loans and Receivables - net of impairment		17,393	16,611
Financial assets at fair value through profit or loss	25	3,626	4,642
Goodwill	10,11	-	1,139
Intangible	10,11	2,252	3,797
Deferred tax asset	12	676	-
Trade and other receivables		219	127
Investment in associates	9	2,419	-
Property, plant and equipment		163	56
Total non-current assets		26,748	26,372
Total assets		**42,770**	**43,843**
Payables	22	2,002	3,301
Financial liabilities at fair value through profit or loss	25	1,275	1,090
Borrowings	14	-	1,020
Total current liabilities		3,277	5,411
Deferred tax liabilities	12	676	1,139
Financial liabilities at fair value through profit or loss	24	4,313	4,426
Total non-current liabilities		4,989	5,565
Total liabilities		8,266	10,976
Net assets		**34,504**	**32,867**
Equity			
Share capital		254,841	253,809
Reserves	26	1,287	835
Retained earnings/(losses)		(221,776)	(221,777)
Total equity attributable to equity holders of Keybridge		**34,352**	**32,867**
Non-controlling interests		152	**-**
Total equity		**34,504**	**32,867**

The notes on pages 11 to 29 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 2015

	Note	Share capital	Treasury share reserve	Share based payments	Foreign exchange translation reserve	Profits reserve		Retained earnings/ (losses)	Total	Non-Controlling Interests	Total Equity
		$'000	$'000	$'000	$'000	$'000		$'000	$'000	$'000	$'000
Balance at 1 July 2015		253,315	-	37	-	534		(221,528)	32,358	-	32,358
Restatements	5	494	-	227	-	37		(249)	509	-	509
Restated balance at 1 July 2015		253,809	-	264	-	571		(221,777)	32,867	-	32,867
Total comprehensive income for the period											
Profit for the period		-	-	-	-	1,750		1	1,751	152	1,903
Total comprehensive income for the period		-	-	-	-	1,750		1	1,751	152	1,903
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Acquisition of Company own shares via on-market buy-back		(92)	-	-	-	-		-	(92)	-	(92)
Dividends		-	-	-	-	(398)		-	(398)	-	(398)
Transfer to treasury share reserve		1,124	(1,124)	-	-	-		-	-	-	-
Transfer to share based payment reserve		-	-	205	-	-		-	205	-	205
Consolidation of Ledcom		-	-	-	19	-		-	19	-	19
Changes in ownership interests in subsidiaries		1,032	(1,124)	205	19	(398)	-	-	(266)	-	(266)
Reserves transferred		-	-			-		-		-	-
Total transactions with owners of the Company		1,032	(1,124)	205	19	(398)	-	-	(266)	-	(266)
Balance at 31 December 2015		254,841	(1,124)	469	19	1,923	-	(221,776)	34,352	152	34,504
Balance at 1 July 2014		258,118	-	-	-	-		(221,528)	36,590	-	36,590
Total comprehensive income for the period											
Profit for the period*		-	-	-	-	646		-	646	-	646
Total comprehensive income for the period		-	-	-	-	646			646		646
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Acquisition of Company own shares via on-market buy-back		(16)							(16)		(16)
Changes in ownership interests in subsidiaries		(16)							(16)		(16)
Transfer to treasury share reserve		(2,798)	2,798								
Total transactions with owners of the Company		(2,798)	2,798	-	-	-		-	-	-	-
Balance at 31 December 2014		255,305	2,798	-	-	646		(221,528)	37,220	-	37,220

* Profit for Half Year to 31 December 2014 has been restated down from $731,000 to $646,000 due to errors in the treatment of interest income and ESP expenses during the period - see note 5 for further details.

Refer to note 26 regarding the rationale for creating a profit reserve.
The notes on pages 11 to 29 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 cash flows
For the six months ended 31 December 2015

	Note	31 Dec 2015 $'000	31 Dec 2014 $'000
Cash flows from operating activities			
Fees received		1,429	-
Interest received		607	887
Payments to suppliers and employees*		(4,406)	(1,674)
Interest payment		(188)	-
Realised cash from available-for-sale investments		-	9
Other income received /(paid out)**		2,977	(2)
Net cash from operating activities		419	(780)
Cash flows from investing activities			
Dividends received		62	18
Payments for purchase of loans and receivables		(567)	(3,362)
Proceeds from sale/repayments of loans and receivables		2,051	2,156
Payments for purchase of financial assets held at fair value through profit or loss		(10,381)	(2,053)
Proceeds from sale of financial assets held at fair value through profit or loss		10,975	1,641
Net cash from investing activities		2,140	(1,600)
Cash flows from financing activities			
Repurchase of Company own shares (market buy-back)		(92)	(16)
Repurchase of Company own notes (market buy-back)		(25)	-
Dividends paid		(398)	-
Repayment of loans and borrowings		(1,020)	-
Net cash from/(used) in financing activities		(1,535)	(16)
Net increase/(decrease) in cash and cash equivalents		1,024	(2,396)
Cash and cash equivalents at 1 July		2,833	14,535
Effect of exchange rate fluctuations on cash held		5	(20)
Cash and cash equivalents at 31 December		3,862	12,119

* Includes $371,000 (2014: $509,000) legal and other costs associated with recovery of historical investments based on various legal claims.

** After legal and other associated costs incurred in negotiating the settlements.

The notes on pages 11 to 29 are an integral part of these condensed consolidated interim financial statements.

1. Reporting entity

Keybridge Capital Limited (referred to as Keybridge) is a company domiciled in Australia. The condensed consolidated interim financial report of Keybridge as at, and for the six months ended 31 December 2015, comprises Keybridge 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 2015 is available upon request from Keybridge's registered office at Level 4, 1 Alfred Street, Sydney NSW 2000 or at www.keybridge.com.au.

2. Basis of preparation

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 2015.

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 4 March 2016.

Keybridge 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.

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 2015.

4. Use of estimates and judgements

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements 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 statements as at and for the year ended 30 June 2015.

Measurement of fair values

The Group has an established control framework with respect to the measurement of fair values. This includes regular reviewing of significant fair value measurements, and reports directly to the Managing Director.

Management regularly reviews the significant inputs used in valuations. If third party information, such as broker quotes or pricing services, is used to measure fair values, then management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Audit, Finance and Risk Committee (AFRC).

4. Use of estimates and judgements (continued)

Measurement of fair values (continued)

When measuring the fair value of an asset or a liability, management uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. No transfers occurred during the period.

Impairment of intangible and goodwill

An annual assessment is made, as set out in Note 10, as to whether the current carrying value of goodwill and intangibles are impaired. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate and adjusted for disposal costs, the determination of which requires the exercise of judgment.

Income tax

Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgments as to the probability of future taxable revenues being generated against which tax losses will be available for offset. These judgements have been based on both a continuity of the business and profits into the future. The management are not expecting that the business will change and these benefits will not be lost.

Accounting for investments

Keybridge's investments in PTB and MPO have not been accounted for as investments in associates (equity accounting), as even though Keybridge has board representation, it does not have significant influence over these companies. In the case of PTB, Keybridge's investment is less than 20% and in the case of MPO, Keybridge and its associated entities had just gone over the 20% threshold in late December 2015, but directly Keybridge owns less than 20%, and does not believe that it has significant influence over the financial or operational decisions of these entities.

5. Correction of prior errors

Restatements

1. The historical accounting treatment for the interest income accrued against the in-substance loans made under the employee share plan (ESP) for shares held in escrow was not correct. The accounting error in relation to this interest income issue dates back to 1 October 2014 being the date that the first two in-substance loans were made under the ESP.

   Due to the recourse nature of the interest to the participants of the ESP, interest income was incorrectly recognised in the Statement of Profit or Loss and should have been recognised in an equity reserve under share-based payments (SBP) on the Statement of Financial Position.

5. Correction of prior errors (continued)

Restatements (continued)

The impact of the error on the comparatives is disclosed in the table in Note 5.5 below. The error resulted in the profit for the year ended 30 June 2015 being overstated by $148,230 (December 2014: $45,228), a $125,740 understatement of SBP reserve in equity and the ESP interest receivable being overstated by $22,490. The only interest that is brought to the income statement is the unwind of the present value discount of the total interest over the life of the ESP.

2. As reflected in the table below, some of the assumptions used in the valuation model for the SBP option expense were incorrect and therefore an error was made in the historical accounting treatment for the SBP of the ESP and was not in accordance with AASB 2. The error for the SBP expense issue dates back to 1 October 2014 being the grant date of the ESP.

	Original inputs		Restated inputs	
	Key management personnel	**Senior employees**	**Key management personnel**	**Senior employees**
Fair value at grant date (cents) - Tranche 1	0.0060	0.0069	0.0420	0.0510
Fair value at grant date (cents) - Tranche 2	0.0060	N/A	0.0232	N/A
Share price at grant date (cents)	0.1865	0.1950	0.1865	0.1990
Exercise price (cents) - Tranche 1	0.2640	0.2440	0.2300	0.2440
Exercise price (cents) - Tranche 2	0.2640	N/A	0.3450	N/A
Expected volatility (weighted-average)	32%	32%	45%	45%
Expected life (weighted-average)	3.3 years	3.3 years	3.3 years	3.3 years
Expected dividends	3.50%	3.50%	0.00%	0.00%
Risk-free interest rate (based on government bonds)	2.26%	2.26%	2.03%	2.94%

The impact of the error on the comparatives, as relevant, is disclosed in the table in Note 5.5 below. The error resulted in SBP expense for the year ended 30 June 2015 being understated by $100,991 (31 December 2014: $41,092) and profit overstated by $100,991 (31 December 2014: $41,092).

3. On 30 June 2015, Keybridge issued Convertible Redeemable Promissory Notes (CRPN) for shares that were held in escrow as part of the ESP. The ESP rules did not allow for the issue of these instruments to the participants. At the time of issue of the CRPNs, Keybridge should have accounted for the reduction in capital as a reduction of the ESP in-substance loans. The historical accounting treatment for the CRPNs issued with respect to the shares held in escrow via the ESP was therefore not correct, with the error dating back to 30 June 2015 being the date of the issue of the CRPN.

   A total of 531,004 CRPNs were recognised in error as a liability in the year ended 30 June 2015. These CRPNs will be cancelled (refer to the 30 June 2015 financial statements for terms of the employee share plan).

   The impact of the error on the comparatives is disclosed in the table in Note 5.5 below. The error resulted in the liabilities for the year ended 30 June 2015 being overstated by $531,004 and paid up capital understated by $531,004.

4. The dividend paid in March 2015 to shareholders offered the right to participate in a dividend reinvestment plan (DRP). The ESP rules did not allow for the issue of shares under a DRP, and could only be treated as a reduction of the ESP in-substance loans for the amount of the dividend. The shares that were issued to the ESP participants under the DRP will be cancelled.

5. Correction of prior errors (continued)

Restatements (continued)

This error dates back to March 2015 being the date of the payment of the dividends and the issue of the DRP shares.

The dividends are to be paid in accordance with the loan agreement, which does not permit payment by way of DRP shares. The dividend amount should have been recorded as a reduction to the participants in-substance loans (refer to the 30 June 2015 financial statements for terms of the employee share plan).

The impact of the error on prior period comparatives, as relevant, is disclosed in the table below. The error resulted in share capital at 30 June 2015 being overstated by $37,250 and profit reserve understated by $37,250.

5. The total restatement for the profit for the FY15 full year is a reduction in profit of $249,000, representing a reduction in the previously reported basic and diluted earnings by 0.157 cents per share.

   As a result of available tax losses to Keybridge there is no tax implication to these restatements.

		Adjustments				
		1	2	3	4	
	Previously stated as at 30 June 2015	**Interest income**	**ESP expense**	**CRPN issue**	**DRP Dividends paid**	**Restated as at 30 June 2015**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Statement of comprehensive income as at 30 June 2015						
Other income (Note 18)	149	(148)	-	-	-	1
Employment expense (Note 19)	1,526	-	(101)	-	-	(138)
Impact on profit at 30 June 2015	**968**	**(148)**	**(101)**	**-**	**-**	**719**
Basic and diluted earnings per share (cents)	0.61	(0.09)	(0.06)	-	-	0.46
Statement of financial position as at 30 June 2015						
Financial liabilities at fair value through profit or loss (Note 25)	4,957	-	-	(531)	-	4,426
Trade and other receivables	149	(22)	-	-	-	719
Equity						
Share capital	253,315	-	-	531	(37)	253,809
Reserve - Share-based payments reserve	37	126	101		-	263
Reserve - Profits reserve	534	-	-	-	37	571
Retained earnings/ (losses)	(221,528)	(148)	(101)	-	-	(221,777)

5. Correction of prior errors (continued)

Restatements (continued)

		Adjustments				
		1	2	3	4	
	Previously stated as at 31 December 2014	Interest income	ESP expense	CRPN issue	DRP Dividends paid	Restated as at 31 December 2014
	$'000	$'000	$'000	$'000	$'000	$'000
Statement of comprehensive income as at 31 December 2014						
Other income (Note 18)	1,222	(45)	-	-	-	1,177
Employment expense (Note 19)	(492)	-	(41)	-	-	(533)
Impact on profit at 31 December 2014	**731**	**(45)**	**(41)**	**-**	**-**	**645**
Basic and diluted earnings per share (cents)	0.46	(0.03)	(0.03)	-	-	0.41

See notes 10 and 11 for the retrospective restatement in accordance with the requirements of AASB 3 'Business Combinations' for amounts provisionally determined at the end of the prior period.

6. Segment information

The Group has two reportable segments, as described below, which are Keybridge's strategic business segments. Keybridge'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 (CODM). The following summary describes the operations in each of the Group's reportable segments under AASB 8 are as follows:

Keybridge Capital – Direct investments
Keybridge Capital – Funds management

The Keybridge Direct Investments segment includes investments in the following asset classes:

- *Solar:* Loan and equity investment in a renewable energy facility.
- *Private Equity*: Loans to an entity investing in businesses in a range of industries.
- *Listed Equities*: Comprises investments in listed equities which currently have exposure to various types of industries.
- *Insurance*: An investment in Foundation Life Holdings which acquired a non-core life insurance subsidiary of Tower Limited. This investment is structured as a loan note and equity in Foundation Life.
- *Property*: Includes loans which are exposed to residential and commercial sites located in Australia.

These investments were previously reported as separate segments in the segment reporting but due to change in strategic direction it has now been decided to report these as two segments being Direct Investments and Funds Management. This better aligns with the current reporting to the CODM.

The Keybridge Funds Management segment includes the investment in Aurora. The investment is structured as a wholly-owned subsidiary of Keybridge.

Funds management has been defined as its own segment due to the nature of its business, providing funds management services and not a direct investment into alternative assets.

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 CODM.

6. Segment information (continued)

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.

	Segment Profit and Loss			Segment Profit and Loss		
	31 Dec 2015 $'000	31 Dec 2015 $'000	31 Dec 2015 $'000	Restated 31 Dec 2014 $'000	31 Dec 2014 $'000	Restated 31 Dec 2014 $'000
	Direct Investment	Funds Manage-ment	Total	Direct Investment	Funds Manage-ment	Total
Revenue and income						
Fees	79	956	1,036	6	-	6
Interest income	590	2	592	1,177*	-	1,177
Net unrealised gain/(loss) on listed equity	1,209	-	1,209	(275)	-	(275)
Net realised gain/ (loss) on disposal of investments	50	-	50	(101)	-	(101)
Unrealised gain/(loss) on derivative liabilities	88	-	88	-	-	-
Share of profits from investments in associates	118	-	118	-	-	-
Other income	3,051	121	3,172	35	-	35
Dividend income	88	-	88	31	-	31
Net gain/(loss) on foreign currency assets	344	-	344	1,030	-	1,030
Operating income	**5,618**	**1,079**	**6,697**	**1,903**	**-**	**1,903**
Expenses						
Net impairment gain/(expenses)	-	(1,884)	(1,884)	-	-	-
Administration expenses	(269)	(116)	(385)	(171)	-	(171)
Employment costs	(1,163)	(892)	(2,055)	(533)*	-	(533)
Fund Management costs	-	(343)	(343)	-	-	-
Legal and professional fees	(450)	(139)	(589)	(322)	-	(322)
Recovery expenses	(371)	-	(371)	(157)	-	(157)
Other expenses	(253)	(9)	(262)	(71)	-	(71)
Results from operating activities	**3,111**	**(2,304)**	**808**	**649**	**-**	**649**
Finance costs	(156)	(40)	(196)	(3)	-	(3)
Net finance (costs)/income	**(156)**	**(40)**	**(196)**	**(3)**	**-**	**(3)**
Profit/(Loss) before income tax	**2,955**	**(2,344)**	**612**	**646**	**-**	**646**

* Refer note 5 above.

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the half year.

The following is an analysis of the Group's assets and liabilities by reportable operating segment:

	31 December 2015		30 June 2015	
	$'000	% of Total	$'000	% of Total
Assets				
Direct Investments	39,235	91.7%	39,424	89.9%
Funds Management	3,535	8.3%	4,419*	10.1%
Total segment assets	42,770	100.0%	43,843	100.0%
Liabilities				
Direct Investments	7,163	86.7%	8,925	81.3%
Funds Management	1,103	13.3%	2,051*	18.7%
Total segment liabilities	8,266	100.0%	10,976	100.0%

* Refer note 10 below.

7. Investment in new business

On 1 July 2015, Keybridge acquired a 70% interest in start-up business Ledcom International S.r.l (Ledcom). Ledcom is engaged in the lighting control gear market for street lights, to provide energy savings to government bodies.

In the period 1 July 2015 to 31 December 2015, Ledcom contributed revenue of nil and losses of $0.505 million to the Group's results.

Consideration transferred

	$'000
Cash	373
Deferred settlement	498
	871

The consideration was a capital injection to commence the business. The investment agreement requires Keybridge to pay the deferred settlement over six instalments on request. These payments are subject to various defined expenditure milestones to be achieved.

Identifiable assets acquired and liabilities assumed

As Ledcom was a newly created company there were no assets or liabilities acquired.

8. Dividends

During the half-year Keybridge Capital Limited made the following dividend payments:

	Half year ended 31 December 2015		**Half year ended 31 December 2014**	
	Cents per share	**Total $'000**	**Cents per share**	**Total $'000**
Fully paid ordinary shares				
Interim dividend	0.25	398	-	-

On 29 February 2016, the directors declared a fully franked interim dividend of 0.25 cents per share to the holders of fully paid ordinary shares in respect of the half-year ended 31 December 2015, to be paid to shareholders on 15 April 2016. This dividend has not been included as a liability in these financial statements.

9. Investments in associates

During the prior year to 30 June 2015, Keybridge built up a 19.99% interest in HHY Fund and accounted the investment at fair value though profit or loss. On 1 July 2015, Aurora was appointed as manager and Responsible Entity of the fund. It was determined that Keybridge had significant influence and going forward would be accounted as an investment in an associate. As at 31 December 2015, Keybridge held a 21.18% investment (due to the on market buy-back by HHY Fund).

9. Investments in associates (continued)

	31 Dec 2015 $'000	30 June 2015 $'000
Investment in associates		
Carrying amount of interests in associates	2,419	-
Opening balance	2,301*	-
Share of:		
Profit/(loss) from continuing operations	118	-
Distributions	-	-
Other comprehensive income	-	-
Total comprehensive income	118	-
Closing balance	2,419	-
Summarised financial information of HHY		
Current assets	11,614,416	-
Non-current assets	-	-
Current liabilities	177,930	-
Non-current liabilities	-	-
Net assets	11,436,486	-
Revenue	977,582	-
Profit from continuing operations before tax	690,971	-
Total comprehensive income after tax	677,322	-

* As at 30 June 2015 this investment was recorded as fair value through profit or loss and not as an investment in associate.

10. Business Combinations

On 27 March 2015, the Group acquired 100% of the shares and voting interests of Aurora. The acquisition of Aurora at the time was provisionally determined as at the end of the 30 June 2015.

During the period, it has been determined that the original classification of goodwill is now to be re-classified as an intangible asset. The intangible asset is attributable to the management rights. Due to the management contracts not having an end-date, the intangible asset has been assessed to have an indefinite useful life. Management have considered the agreement and other information available in making this decision including the industry, the period of future control and the decrease in the FUM.

Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred for Aurora:

	30 June 2015 $'000
Cash (net of acquisition costs)	5,365
Contingent consideration	800
	6,165

10. Business Combinations (continued)

Identifiable assets acquired and liabilities assumed

The following summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date for Aurora:

	30 June 2015 $'000
Cash and cash equivalents	3,502
Trade and other receivables	787
Other current assets	88
Property, plant and equipment	42
Goodwill and other intangible assets	-
Trade and other payables	(1,030)
Borrowings	(1,021)
Total identifiable net assets	2,368

Goodwill/ Intangibles

Goodwill and Intangible assets arising from the acquisition of Aurora has been recognised as follows:

	Restated 30 June 2015 $'000	**Originally Stated 30 June 2015 $'000**
Total consideration transferred	6,165	6,165
Fair value of identifiable assets	(4,419)	(4,419)
Fair value of identifiable liabilities	2,051	2,051
Intangible recognised	(3,797)	-
Deferred tax liability (DTL)	(1,139)	-
Goodwill	1,139	3,797

Goodwill is due to the difference between the net fair value of assets and liabilities acquired and the purchase price paid to the vendor shareholder. Goodwill was recorded as a provisional value at 30 June 2015.

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 accounting treatment at 30 June 2015 and additional available information and advice, Keybridge has restated the intangibles and the impact on deferred tax to reflect all the information that is known.

As a result of the reclassification of goodwill to intangible there is a requirement to recognise a deferred-tax liability against the intangible. The deferred-tax liability is the expected tax on the benefit from the intangible that has been recognised.

Fair values measured

The fair value of the intangible has been measured using a discount cash flow valuation model which considers the present value of expected payment, discounted using a risk adjusted discount rate adjusted for any costs of disposal. The expected payment is determined by considering the possible scenarios of forecast EBITDA, the amount of FUM fees to be paid under each scenario and the probability of each scenario.

The recoverable amount of the intangible is based on the fair value model less cost of disposal model for Aurora. Details regarding the carrying amounts of the intangibles and goodwill are disclosed in Note 11. The following elements are reflected in the calculation of the Aurora intangible asset's valuation:

10. Business Combinations (continued)

Fair values measured (continued)

a. estimate of the future cash flows the entity expects to derive from Aurora, based on a 5 year plus terminal value projection;
b. expectations about possible variations in the amount or timing of those future cash flows;
c. the time value of money, represented by the current market risk-free rate of interest;
d. the price for bearing the uncertainty inherent in the asset; and
e. other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from Aurora.

The following assumptions have been used in preparing the valuation:

- Valuation date: 31 December 2015
- Discount rate: 11%*
- Long term growth: 3%**
- Tax Rate: 30%
- Selling costs: 2%**
- Projection period: 5 years plus terminal value
- Fair Value hierarchy: Level 3 Investment

* Based on the risk free rate plus a margin that a large financial institution has used to price a bond issue. This total ~ 7.5%. Keybridge believes that based on the following factors below a reasonable rate would be 11%:

- Size of Keybridge;
- Liquidity in the market;
- Security provided;
- Marketability of the debt; and
- Risk profile of Keybridge.

** Estimation based on past experience and industry norms.

A sensitivity analysis was undertaken to determine the impact of a change in FUM on the fair value. A 10% increase in FUM resulted in a $1.35 million increase in the fair value of the intangibles. A 10% decrease in FUM resulted in a $1.35 million decrease in the fair value of the intangibles.

11. Intangible and Goodwill assets

	31 Dec 2015 $'000	Restated 30 June 2015 $'000
Goodwill		
Balance at opening period	1,139	25
Recognition of goodwill – Note 10	-	1,139
Impairment of goodwill	(1,139)	(25)
Carrying amount at end of period	-	1,139

As at 31 December 2015, the goodwill was tested for impairment and it was determined that a full impairment of the goodwill was required.

	31 Dec 2015 $'000	Restated 30 June 2015 $'000
Intangible		
Balance at opening period	3,797	-
Recognition of intangible	-	3,797
Impairment of Aurora intangible	(1,545)	-
Carrying amount at end of period*	2,252	3,797

11. Intangible and Goodwill assets (continued)

	31 Dec 2015 $'000	Restated 30 June 2015 $'000
Impairment expenses		
Impairment of goodwill	1,139	-
Impairment of intangible	1,545	-
Less: Reduction of deferred consideration – Note 22	(800)	-
	1,884	-

* The net carrying amount of the intangible after adjusting for a deferred tax liability of $0.676 million is $1.576 million.

The payment of the contingent consideration was based on a value of FUM at 27 March 2016 being greater than $120 million. Given the closing FUM as at 31 January 2016 was $106 million, it is highly unlikely the contingent consideration will be paid.

The Aurora assets were tested for impairment and it was determined that as a result in the decline in FUM the intangible and goodwill were to be impaired. This is reflected in the statement of income as an impairment for $1.884 million.

Keybridge notes that on 29 February 2016, Aurora suspended applications, redemptions and trading on the ASX in relation to several of its funds. Listed below is a list of the funds that have been frozen:

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

The decision to freeze 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 this decision has not impacted the carrying value of the investment in Aurora, but this may change as further information is made available.

12. Taxation

	31 Dec 2015 $'000	Restated 30 June 2015 $'000
Deferred Tax Asset		
Balance at opening period	-	-
Recognition of DTA – Revenue losses	1,139	-
Reduction of DTA	(463)	-
Balance at end	676	-

	31 Dec 2015 $'000	Restated 30 June 2015 $'000
Deferred Tax Liability		
Balance at opening period	1,139	-
Recognition of DTL	-	1,139
Reversal of DTL provision of Aurora intangible	(463)	-
Balance at end	676	1,139

12. Taxation (continued)

The Group's consolidated effective tax rate in respect of continuing operations for the six-months ended 31 December 2015 is 0% as Keybridge has carried forward tax losses (for the six-months ended 31 December 2014: 0%).

As Keybridge has accumulated tax losses (revenue losses) held off balance sheet of approximately $158 million, the balance of unrecognised DTA's are permitted to be re-recognised in future periods to the extent they are considered probable of being utilised.

13. Issues, repurchases and repayments of equity securities

Issued capital as at 31 December 2015 amounted to $254,841,000 (162,145,660 ordinary shares of which 5,000,000 ESP shares are recorded as treasury shares under reserves). Keybridge continued with its on-market buy-back program and purchased 541,959 shares during the half-year.

14. Borrowings

During the half-year, the Group repaid its borrowings of $1.020 million and no longer holds debt (June 2015: $1.020 million).

15. Fees

	31 Dec 2015 $'000	31 Dec 2014 $'000
Fund management fees*	956	-
Director fees charged to third parties**	60	-
Loan establishment fees	20	6
	1,036	6

* Fund management fees are charged to funds where Aurora is the responsible entity. Aurora was purchased by Keybridge on 27 March 2015.

** The Director fees charged are for non-executive services provided by Keybridge directors who sit as representatives on the boards of PTB Group and Molopo.

16. Net unrealised gain/(loss) on listed equities

	31 Dec 2015 $'000	31 Dec 2014 $'000
Net unrealised gain/(loss) on listed equities	1,209	(275)
	1,209	(275)

Given the significant holdings of listed equities held by Keybridge, mark to market movements on the investments can fluctuate materially between periods.

17. Other income

	31 Dec 2015 $'000	31 Dec 2014 $'000
Settlement fees*	3,020	-
Distributions on zero valued assets	31	35
Legal claim defence fees - Aurora	121	-
	3,172	35

* Keybridge received $3.020 million (before legal costs of $195,000 as a result of the settlement of two confidential legal proceedings to which it was not a direct party, but to which it held beneficial interests.

18. Interest

	31 Dec 2015 $'000	Restated 31 Dec 2014 $'000
Interest on bank deposits	18	176
Interest on Interest on employee share plan	1	-
Interest on loans and advances - third parties	573	1,001
	592	1,177

19. Employment costs

	31 Dec 2015 $'000	Restated 31 Dec 2014 $'000
Wages and salaries	1,758	428
Superannuation	126	51
Other associated personnel expenses	56	13
Employee share plan	115	41
	2,055	533

20. Legal and Professional costs

	31 Dec 2015 $'000	31 Dec 2014 $'000
Investment related legal fees	223	33
Investment related professional fees	110	100
Director fees	101	99
Auditing, accounting and tax costs	155	60
Compliance legal fees	-	30
	589	322

21. Recovery costs

	31 Dec 2015 $'000	31 Dec 2014 $'000
Legal recoveries and Scheme of Arrangement (2014)	371	157
	371	157

22. Payables

	31 Dec 2015 $'000	30 June 2015 $'000
Employment related payable	604	163
Legal and professional fees payable	743	951
Director fees payable	51	51
Contingent consideration - (Aurora acquisition*)	-	800
Creditors	604	1,336
	2,002	3,301

Keybridge's accrued expenses include legal and professional fees, audit fees and directors' remuneration.

* The Contingent consideration was reversed at 31 December 2015 as part of the revaluation of Aurora. Refer to notes 10 and 11.

23. Impairment provisions on loans and receivables

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 (i.e. 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.

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.

During the six months to 31 December 2015 the Group assessed the impairment provisions that had been recognised between June 2012 and 2015 and where it was deemed that a future repayment of an impaired loan was likely then the impairment was written-back.

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

	Allowance for Impairment	
	31 Dec 2015 $'000	**30 June 2015 $'000**
Balance at beginning of the period	23,736	23,448
Impairment loss recognised	-	712
Impairment write-back in income statement	-	(1,628)
Foreign exchange movements on impairments	-	2,604
Prior periods provisions written-off: Andromeda	(14,351)	-
Prior periods provisions written-off: AMW	-	(1,070)
Loans realised Ridgway	-	(331)
Balance at end of period	9,385	23,736

On 1 July 2015, Keybridge disposed of its interests in the special-purpose-vehicle that held the security for the underlying investment in Andromeda which crystallised the loss on disposal and wrote-off the prior year's provision in full.

There were no impairment losses on any investment in loans and receivables for the six months to December 2015.

23. Impairment provisions on loans and receivables (continued)

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

	Gross 31-Dec 2015 $'000	Impairment 31-Dec 2015 $'000	Net 31-Dec 2015 $'000	Gross 30-Jun 2015 $'000	Impairment 30-Jun 2015 $'000	Net 30-Jun 2015 $'000
Not past due	22,568	(6,082)	16,486	23,361	(6,152)	17,209
Past Due 91-120	-	-	-	-	-	-
Past Due 180-365	-	-	-	-	-	-
More than one year	4,460	(3,303)	1,157	18,740	(17,584)	1,156
Total assets/(liabilities)	27,028	(9,385)	17,643	42,101	(23,736)	18,365

24. Financial liabilities at fair value through the profit and loss

	31 Dec 2015 $'000	Restated 30 June 2015 $'000
Balance at beginning of period	4,426	-
Issue of CRPNs	-	4,426
On-market CRPN buy-back	(25)	-
Unrealised gain on revaluation at 31 December*	(88)	-
	4,313	4,426

* At 31 December 2015, a mark-to-market revaluation of the CRPNs was completed.

The CRPN are listed on the Australian Stock Exchange and have been designated as at fair value through profit or loss because they are managed on a fair value basis.

The CRPN were issued on 30 June 2015 on the following terms:

- an interest rate fixed at 7% per annum;
- interest payments are to be fully franked or grossed up with additional equivalent cash payments;
- the CRPN rank ahead of ordinary shares and thus have a preferential right to payment of distributions and capital;
- At maturity, holders will have the ability to request a conversion of their CRPN to ordinary shares at a 2.5% discount of the volume weighted average price at the time (Keybridge may at that time either convert the CRPN into ordinary shares or cash redeem the CRPN at face value); and
- Keybridge may also elect to convert the CRPN to ordinary shares at a 5.0% discount of the VWAP at the time or cash redeem the CRPN on the occurrence of certain other trigger events.

25. Financial instruments

Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value.

	Carrying amount						Fair value				
	Non-current assets		Current assets								
In thousands of dollars	Loans and receivables	Other investments, including derivatives	Loans and receivables	Other investments, including derivatives	Cash and cash equivalents	Total	Level 1	Level 2	Level 3	Total	
31 December 2015											
Financial assets measured at fair value											
Equity securities	-	3,626	-	10,419	-	14,045	14,045	-	-	14,045	*
Financial assets not measured at fair value											
Loans and receivables	17,393	-	250	-	-	17,643	-	-	-	-	
Cash	-	-	-	-	3,862	3,862	-	-	-	-	
	17,393	3,626	250	10,419	3,862	35,550	14,045	-	-	14,045	
30 June 2015											
Financial assets measured at fair value											
Equity securities	-	4,642	-	10,791	-	15,433	15,433	-	-	15,433	*
Equity Options	-	-	-	413	-	413	413	-	-	413	*
Financial assets not measured at fair value											
Loans and receivables	16,611	-	1,754	-	-	18,365	-	-	-	-	
Cash	-	-	-	-	2,833	2,833	-	-	-	-	
	16,611	4,642	1,754	11,204	2,833	37,044	15,846	-	-	15,846	

* Quoted bid price in an active market.

25. Financial instruments (continued)

Carrying amounts and fair values (continued)

	Carrying amount						Fair value			
	Non-current liabilities		Current liabilities							
	Trade and other payables	Loans and borrowings	Trade and other payables	Equity Securities	Loans and borrowings	Total	Level 1	Level 2	Level 3	Total
31 December 2015										
Financial liabilities measured at fair value										
Equity securities**	-	-	-	1,275	-	1,275	1,275	-	-	1,275 *
Convertible Redeemable Promissory Notes	-	-	-	4,313	-	4,313	4,313	-	-	4,313 *
Financial liabilities not measured at fair value										
Borrowings	-	-	-	-	-	-	-	-	-	-
	-	-	-	5,588	-	5,588	5,588	-	-	5,588
30 June 2015										
Financial liabilities measured at fair value										
Equity securities	-	-	-	1,090	-	1,090	1,090	-	-	1,090 *
Convertible Redeemable Promissory Notes***	-	-	-	4,426	-	4,426	4,426	-	-	4,426 *
Financial liabilities not measured at fair value										
Borrowings	-	-	-	-	1,020	1,020	-	-	-	-
	-	-	-	5,516	1,020	6,536	5,516	-	-	5,516

* Quoted bid price in an active market. ** Equity securities that are liabilities are short sold listed equity positions. ***Restated from prior year.

26. Capital and reserves

Details regarding the movements in the reserves are detailed in the Condensed consolidated statement of changes in equity on page 9.

Profits reserve

The profits reserve represents the portion of current year profits transferred to a reserve to preserve the characteristic as profit and not appropriate against prior year accumulated losses. Such profits are available to enable payment of franked dividends in the future should the directors declare by resolution.

Treasury shares reserves

The treasury share reserve represents the portion of shares that have vested under the employee share plan. These shares are quoted but held in escrow until the ESP loan is repaid.

Share-based payments reserve

The share-based payments reserve represents all the expenses associated with the employee share plan.

Dividends

Dividends were declared and paid by Keybridge during the current year.

After 31 December 2015 the directors declared an interim dividend of 0.25 cents per share (100% franked). The dividend is to be paid out of the Profits Reserve. The record date for determining entitlement for the interim dividend is 31 March 2016 and the interim dividend will be payable on 15 April 2016.

Shares issued and paid but not quoted

As at 31 December 2015, there are 15,586,667 shares issued (but not quoted) which relate to the ESP.

There are also 196,231 DRP shares that were issued in error (refer to note 5 - Restatements). These shares will be cancelled.

Post period end a further 1,666,666 million shares that relate to the ESP will be quoted.

27. Related party disclosure

a) Other related party transactions

During the year, the transactions with Keybridge and Aurora and Bridge Infrastructure Capital Pty Limited (BIC), who are subsidiaries of Keybridge is listed as follows:

	Transactions value year ended		Balance outstanding as at	
	31 Dec 2015 $	30 June 2015 $	31 Dec 2015 $	30 June 2015 $
Subsidiaries				
Carrying amount of loans received (Aurora)	1,466,226	(3,037,161)	(1,570,935)	(3,037,161)
Carrying amount of loans provided (BIC)	305,302	-	6,537,652	6,440,110
	1,771,528	(3,037,161)	4,966,717	3,402,949

During the year, the transactions between Keybridge and Aurora were transfers via inter-company loans, on which no interest was charged.

The loans to BIC were advanced in prior periods, this loan is denominated in Euros and has been impaired to its current carrying value. A repayment of $305,302 was received during the six-months to December 2015.

27. Related party disclosure (continued)

b) Transaction with managed funds

All transactions with Aurora and other subsidiary entities of Keybridge, as the Responsible Entity of the managed schemes, has been at market value on normal commercial terms and conditions. In accordance with each managed fund's constitution, the responsible entity/trustee received fees for the six-months to December 2015 of $956,000 for the provision of responsible entity/trustee and asset management services to the funds.

c) Investment in managed funds

As at 31 December 2015, Keybridge did not hold any units in managed funds related to the consolidated Group.

Key management personnel holdings in managed funds

As at the date of this report key management personnel direct/indirect holdings in Aurora-managed funds for which Aurora is Responsible Entity were as follows:

Unitholder	No. of units held opening	No. of units held closing	Fair value of investment	No. of units acquired	No. of units disposed	Distributions paid/ payable by the Fund
31 December 2015						
J Corr & associates	283,867	289,600	$241,208	5,733	-	$4,882
S Lindsay & associates	105,214	107,339	$89,403	2,125	-	$1,829

28. Subsequent event

Keybridge notes that on 29 February 2016, Aurora suspended applications, redemptions and trading on the ASX in relation to several of its funds. Listed below is a list of the funds that have been frozen:

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

The decision to freeze 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 this decision has not impacted the carrying value of the investment in Aurora, but this may change as further information is made available.

Keybridge Capital Limited and Controlled Entities

ABN 16 088 267 190

Directors' Declaration

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

1. the financial statements and notes set out on pages 7 to 29, 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 2015 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 Keybridge will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors:

Andrew Moffat
Chairman

Sydney, 4 March 2016

Deloitte.

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Independent Auditor's Review Report to the Board of Directors of Keybridge Capital Limited

We have reviewed the accompanying half-year financial report of Keybridge Capital Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2015, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year as set out on pages 11 to 29.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year 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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Keybridge Capital Limited's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Keybridge Capital Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year 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.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Keybridge Capital Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year 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 consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Declan O'Callaghan
Partner
Chartered Accountants
Sydney