

Keybridge Capital Limited
ABN 16 088 267 190

Annual Report – 30 June 2016

Financial Calendar

EVENT DATES FOR FINANCIAL YEAR 2017

Annual General Meeting	Wednesday 23 November 2016
Financial year 2017 half year results announced	Tuesday 28 February 2017
Financial year 2017 annual results announced	Thursday 31 August 2017
Annual General Meeting	Monday 20 November 2017

Keybridge reserves the right to change these dates.

This Annual Report (including the Financial Statements) is for Keybridge up to 30 June 2016.

THE REGISTERED OFFICE OF KEYBRIDGE CAPITAL LIMITED IS:

Level 4
1 Alfred Street
Sydney NSW 2000

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Managing Director's Report

FY16 started out well, with two legal cases settling in the first half of the year, which recovered over \$3.336 million in cash profit. These recoveries together with new investments in Aurora Funds Management Limited ("Aurora") and Foundation Life showed significant promise for the year ahead.

The intention in acquiring Aurora was to turn Keybridge into a boutique funds manager however, the Aurora business faced a number of major issues throughout the year, which ultimately resulted in Aurora delivering a substantial operating loss and Keybridge making the decision to sell the business at a significant loss against the original purchase price.

When Keybridge announced its intention to acquire Aurora in December 2014, the business had approximately \$180 million of Funds Under Management (FUM). By the time Keybridge completed the acquisition in March 2015, FUM had declined to \$150 million. Keybridge initially backed the existing Aurora management team with additional funding to implement its business plans to arrest the decline in FUM, and start growing the business again. However, the business continued to face challenges in keeping FUM, largely as a result of rating downgrades by two key independent research houses. By December 2015, FUM in the acquired Aurora business had declined to approximately \$112 million.

Further, by that time, a long-standing investment in Antares Energy Limited ("Antares") that had been made by the Aurora investment team had been suspended from trading by the ASX. As a result of the uncertainty surrounding the investment in Antares, a decision was made by Keybridge in February 2016, to step in and appoint representative directors to Aurora, to review Aurora management's business plans and consider strategic options for the Aurora business. Antares ultimately went into Administration in April 2016.

Initially, Aurora made the decision that it was in the best interests of investors in three separate Aurora funds listed below, that each held directly or indirectly investments in Antares to freeze applications and redemptions in order to provide time for the Antares investment to be worked through.

- The Aurora Absolute Return Fund (ABW);
- The Aurora Fortitude Absolute Return Fund (AFARF); and
- The Aurora Global Income Trust (AIB);
(collectively the "Frozen Funds")

In the meantime, Keybridge was approached by several parties with an interest in acquiring the Aurora business.

With the Aurora business continuing to make ongoing and increasing operating losses, requiring significant staff restructuring and facing substantial investment withdrawals once the Frozen Funds were re-opened for redemptions, Keybridge made the decision that a sale of the business would deliver the best value result for Keybridge shareholders. We were very disappointed with this outcome and it did come at a significant financial loss for the Company.

Elsewhere in the Company's portfolio, most assets performed within expectations.

The highlights were the two significant recoveries made on litigation matters in the first half of the year, with a total of \$3.336 million recovered on assets that had previously been carried at nil value. The Company continues to pursue other litigation matters with the opportunity of further recoveries in the future.

Foundation Life and the Totana Solar Farm have both delivered solid returns and consistent income. The Company continued to pursue outcomes on strategic investments in listed companies, including its interests in Molopo Energy Limited (ASX Code : MPO), PTB Group Limited (ASX Code: PTB) and HHY Fund (ASX Code: HHY). These investments represent a large component of the carrying value of the Company, and both Molopo and PTB are accounted for at year end on mark-to-market share prices and HHY Fund is accounted for as an investment in associate. Keybridge believes that there is significant unrecognised value in the shares held in these companies and hopes to achieve significant profits on these investments in due course.

For FY16 it was unfortunate that the issues and losses suffered through the Aurora investment significantly overshadowed the positive financial results achieved elsewhere in the Company.

Managing Director's Report

Further, over the last six months, the Company has been through significant change at the Board level, and I would personally like to thank Nicholas Bolton, Craig Coleman, Andrew Moffat and Bill Brown for their efforts and contributions to the Company over the last few years.

I'd also like to welcome William Johnson, Simon Cato and John Patton to the Board. I am confident that they will bring new experience, expertise and initiative to the Company in order to allow it to pursue new investment initiatives.

Finally, I would like to take this opportunity to thank shareholders for their patience and continued support for the Company, and hope that we will be able to deliver significantly improved results for FY17.



Antony Sormann
Executive Director

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Corporate Governance

The Board of Keybridge Capital Limited are committed to achieving and demonstrating the highest standards of corporate governance. As such, the Company has adopted what it believes to be appropriate corporate governance policies and practices having regard to its size and the nature of its activities.

The Board has adopted the ASX Corporate Governance Principles and Recommendations which are complemented by the Company's core principles of honesty and integrity. The corporate governance policies and practices adopted by the Board are outlined in the Corporate Governance section of the Company's website (http://www.keybridge.com.au/corporate_governance.php).

Directors' Report

The Directors present their Report together with the Financial Statements of the Group comprising Keybridge Capital Limited (Keybridge) and its subsidiaries, and the Group's interest in associates for the financial year ended 30 June 2016 and the Auditor's Report thereon.

DIRECTORS

The Directors of Keybridge during the year to 30 June 2016 and up to the date of this Report were as follows:

Non-executive Directors

Andrew Moffat (Chairman) (from 1 July 2015 to 29 July 2016)
Bill Brown (from 9 October 2012 and Chairman from 29 July 2016 to 10 August 2016)
Craig Coleman (from 1 July 2015 to 18 May 2016)
Simon Cato (from 29 July 2016)
William Johnson (from 29 July 2016)
John Patton (from 10 August 2016)

Executive Directors

Antony Sormann (Acting Managing Director) (from 17 December 2015)
Nicholas Bolton (Managing Director) (from 1 July 2015 to 17 December 2015)

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

In respect of the financial year ended 30 June 2016, due to the Company making a loss during the second half year of the year, the Directors have determined not to pay a final dividend. An interim dividend of 0.25 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 15 April 2016.

In respect of the financial year ended 30 June 2015, as detailed in the Directors' Report for that financial year, a final dividend of 0.25 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 1 October 2015.

On 21 September 2016, the Company made a CRPN payment amounting to \$0.08 million. The Company will continue to make CRPN payments, with the next payment due in December 2016.

TAXATION

Keybridge is subject to the Australian corporate income tax rate of 30%, however, Keybridge has accumulated tax losses of approximately \$ 178.7 million, which have been used to offset profits made during the period such that no tax is payable. Keybridge also has \$ 7.983 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.

Directors' Report

REVIEW OF OPERATIONS AND RESULTS

Overview

Financial Year 2016 started out well, with two legal cases settling in the first half of the year, which recovered over \$3.336 million in cash profit. These recoveries together with new investments in Aurora Funds Management Limited ("Aurora") and Foundation Life showed significant promise for the year ahead.

However, the Aurora business faced a number of major issues throughout the year. At the time of acquisition, retail funds under management (FUM) was approximately \$150 million. By 31 December 2015, FUM had declined to \$112 million, and the business was losing money despite efforts to add more marketing capability and a reasonable investment performance in the larger Funds.

However, in February 2016, it became evident to both Aurora and Keybridge management that there was significant uncertainty surrounding the recoverability of an investment that had been made by several of the Aurora Funds into Antares Energy Limited, which was suspended from trading on the ASX in November 2015 and later went into Administration.

At that point, Keybridge made the decision to appoint two directors to the Aurora Board, who together with the Aurora management team undertook a review of the Aurora business plan in light of the changed circumstances of the individual Funds managed by Aurora and the business as a whole. The review included an assessment of the ongoing viability of the entire Aurora business as it then stood. Aurora considered a number of strategic options to restructure or sell the investment management rights to some or all of the Aurora Funds, and a sale of the entire business.

Ultimately a decision was made by Keybridge that the best outcome for the Company was to sell AFML as a whole, as it was unlikely to be able to continue supporting the losses being incurred or turn around the business operations with the current management team in place.

AFML was sold on 30 June 2016 for \$750,000¹ plus a number of potential earn out payments based on a range of business outcomes that may or may not eventuate over the coming year. In total Keybridge could earn up to another approximately \$1.1 million over the next 12 months from the sale.

Elsewhere in the Company's portfolio, assets largely performed within expectations.

The most significant highlights were recoveries made on litigation matters, with approx. \$3.336 million recovered in the first half of the year.

Otherwise, a large component of the carrying value of the Company's assets is based on mark-to-market share prices on the investments and loans held. These listed investments predominantly consist of stakes in Molopo, HHY Fund and PTB Group. The Company believes that there is significant unrecognised value in these investments and hopes to achieve significant profits on them in due course.

However, for FY16 the issues and losses suffered through the Aurora investment significantly overshadowed the positive results achieved elsewhere in the Company.

Description of Assets

Listed Equities

Keybridge's Listed Equities portfolio at 30 June 2016 totalled \$15.76 million[#] (2015:\$14.34 million), including \$2.66 million (2015: \$2.61 million) invested in HHY Fund which is accounted for as an associate. The majority of smaller investments were sold during the year, with the focus turning to three strategic holdings being:

¹ The net proceeds from the sale of Aurora were adjusted for the net liabilities in Aurora at the date of sale.

Directors' Report

- a 18.48%^ (as at 30 June 2016) stake in Molopo Energy Limited ("Molopo"). Molopo was historically an oil and gas exploration and production company. Molopo 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.
- a 19.13%^ investment in PTB Group Limited (PTB), a turbo-prop aircraft parts and services supply organisation with operations in Queensland and New South Wales; and
- a 21.62% investment in HHY Fund. Keybridge has been appointed as Investment Manager of the Fund, while Aurora is the Responsible Entity – Refer Note 19.

[#] Excluding investments in associates. [^] Accounted for as financial assets at fair value through the profit or loss – Refer Note 18.

Loans and receivables

1. Insurance

Keybridge continues to hold a loan of NZD 3.44 million (AUD 3.28 million) in Foundation Life Holdings (FLH). FLH acquired Tower Life New Zealand, a non-core life insurance subsidiary of Tower Limited.

The loan in FLH is structured to earn ongoing interest at 9% per annum, payable at the end of FLH's financial year. Keybridge received approximately NZD 0.41 million (AUD 0.39 million) in cash returns during the year made up of both capital and interest payments.

2. Infrastructure / Solar

In March 2008, Keybridge invested by way of a loan 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 tariff.

The tariff is currently 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 occur in 2017.

During the FY16 year, Keybridge received EUR 0.49 million (AUD 0.76 million) in cash repayments, which included both a return of principal and interest payments.

The carrying value net of impairments at 30 June 2016 is AUD 6.32 million (2015: AUD 6.440 million).

The Totana plant and equipment recently suffered some mechanical failures, and Keybridge currently anticipates that some additional maintenance capital expenditure will be required during FY17 to keep the plant operating at full production over the long term. These costs will be paid from operating revenue.

3. Private Equity

Keybridge holds a limited recourse loan to RPE1 Investor LLC, a Colorado USA limited liability company, which holds units in a Private Equity Fund. This loan accrues interest at 14.5% per annum and has a maturity date of 31 December 2017. Keybridge's loan is carried at a value of USD 5.00 million (AUD 6.740 million) (2015: AUD 6.529 million) and secured by Republic Limited Partnership Capital's interest in the Private Equity Fund (RPE). RPE's internal valuation of the Fund was USD42.4 million (AUD 55.37 million) (as of end March 2016) with the value of the stake forming Keybridge's security interest valued at half of this amount.

Keybridge received no interest or principal repayments from its Private Equity investment during the financial year 2016 and elected to access the recoverable value of the loan on the Statement of Financial Position.

4. Property

During the year one of Keybridge's property-related loans was sold by its owner with repayment of the Company's outstanding loan repaid in full.

Directors' Report

Keybridge's last remaining property-related investment is a loan to an entity currently in liquidation with Keybridge holding first ranking security for its loan backed by freehold titles.

During the year, the Liquidator sought to terminate a significant but uncommercial contract with the tenant in order to sell the property with vacant possession or lease on more favourable commercial terms. However, the Liquidator was unsuccessful in its Supreme Court hearing and the contract in question remains on foot. As a result, Keybridge has impaired the value of its loan from \$1.2 million at 30 June 2015 to \$0.885 million at 30 June 2016, based on an independent valuation for the underlying property securing the loan.

Funds Management

As mentioned above, in March 2015, Keybridge completed the acquisition Aurora with a view to more generally turning Keybridge into an alternative asset funds management business.

By February 2016, it became evident to both Aurora and Keybridge management that the business issues faced by Aurora required a comprehensive review of the Aurora business plan considering the ongoing operating losses and significant management issues it was facing. The findings of the review put into question the entire viability of the business as a going concern. After considering a range of strategic options including a restructure or sale of the investment management rights to some or all of the Aurora Funds, Keybridge made the decision to sell the entire business.

The sale transaction was completed on 30 June 2016 at a sale price of \$750,000² plus a number of potential earn out payments based on a range of business outcomes that may or may not eventuate over the coming year. In total, Keybridge could earn up to another approximately \$1.1 million over the next 12 months from the sale.

Technology Start Up

In July 2015, Keybridge committed to an investment in Ledcom, an Italian based technology business focused on LED and WiFi technology. Keybridge owned 70% of the company and initially consolidated the operating losses in its financial statements. As an early stage business, Ledcom was suffering ongoing losses and was seeking ongoing financial support from Keybridge to continue its operations. By March 2016, Keybridge made the decision to cease funding to the company and to sell its interest back to its founders at a significant loss of \$0.87 million. Keybridge is currently owed approximately EUR 70,000 by Ledcom which it hopes to recover during FY17. At 30 June 2016, this loan was fully provided for.

The accounts relating to the Ledcom investment are shown as a discontinued operation on Note 30.

Events Subsequent to Reporting Date

An extraordinary General Meeting of Shareholders was held on 29 July 2016, at which time Andrew Moffat was removed as a Director and Chairman of the Company, and two new directors, Simon Cato and William Johnson were appointed.

On 10 August 2016, Bill Brown resigned as a Director and Interim Chairman of the Company, and John Patton was appointed as a Director of the Company.

On 3 August 2016, an investor in HHY Fund (ASX Code: HHY) requested that an extraordinary general meeting of unit holders be called to replace the responsible entity (RE). This meeting was held on 29 September 2016. A decision was made to adjourn the meeting after Aurora Global Income Trust (ASX: AIB) announced its intention to make a script takeover bid for HHY Fund. Keybridge is the investment manager of HHY Fund. At this stage it is unknown how the above will impact Keybridge as investor in HHY Fund and as investment manager.

² The net proceeds from the sale of Aurora were adjusted for the net liabilities in Aurora at the date of sale.

Directors' Report

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 under the Review of Operations and Results.

Outlook

Keybridge's focus is on maintaining its program of managing and opportunistically realising its investments with a view to maximising shareholder value.

Financial Results

The Directors are disappointed to report that the Group earned a net loss after tax in the 2016 financial year of \$2.49 million (2015: gain \$0.72 million). This was a major disappointment after returning to profitability in the 2015 financial year.

Basic and diluted loss per share attributable to the owners of the Company for FY16 was 1.42 cents per share compared with a profit of 0.45 cents per share in FY15.

Revenue and income for the period of \$7.142 million (2015: restated \$4.037 million) included interest on loans, dividends from investments, realised and unrealised gains on investments and FX, the Company's share of profits from equity accounted investments, plus the one off gains generated throughout the year as a result of litigation recoveries. However, it excludes income from fees generated by Aurora, as this is treated as a discontinued operation.

Operating expenses of \$4.051 million (2015: restated \$2.983 million), includes corporate overhead and administration costs, legal costs on asset recoveries and the \$0.376 million impairment expenses relating to the carrying value of Ledcom and Manly loans. However, it excludes the impairment on the carrying value of Aurora since 1 January 2016 (\$3.331 million loss on sale), and the operating losses incurred by Aurora for the whole financial year of \$1.065 million (2015: \$0.158 million). These items are both included in the loss from discontinued operations together with losses relating to the investment in Ledcom totalling \$0.874 million.

Largely as a result of the losses on Aurora and Ledcom, the Group's underlying equity position declined during the 2016 financial year from \$32.867 million at 30 June 2015 to \$29.738 million at 30 June 2016.

The Company also returned \$0.795 million during the year by way of a 0.25 cents per share fully franked interim dividend to shareholders and paid interest/ dividends of \$0.312 million to the CRPN holders.

	2016 \$'000	Restated 2015 \$'000
Income	7,142	4,037
Operating costs	(4,051)	(2,983)
Operating profit before finance costs	3,091	1,054
Finance costs	(312)	(5)
Profit/(Loss) before income tax	2,779	1,049
Income tax benefit	-	(172)
Profit/(Loss) from continuing operations	2,779	877
Loss for the year from discontinued operations	(5,270)	(158)
(Loss)/ profit for the period	(2,491)	719

Directors' Report

Statement of Financial Position

Shareholders' funds equates to net tangible asset value of approximately 18.8 cents per ordinary share at 30 June 2016 down from 20.6 cents per ordinary share at 30 June 2015.

As at 30 June 2016 the value of Keybridge's investments by asset class was as follows:

	2016 \$' 000	2016 % of total	Restated 2015 \$'000	2015 % of total
Cash	1,665	4.8	2,833	6.6
Listed Equities	15,757	45.0	14,343	33.6
Private Equity	6,740	19.3	6,529	15.3
Infrastructure	6,318	18.0	6,440	15.1
Insurance	3,279	9.4	3,136	7.3
Property	885	2.5	2,260	5.3
Funds Management	—	—	4,936**	11.5
Other assets	364	1.0	2,276	5.3
Total Assets	35,008	100.0	42,753	100.0
Financial Liabilities at fair value through profit or loss***	4,203		4,426	
Other liabilities	1,067		5,460*	
Net Assets	29,738		32,867	

* Includes a deferred tax liability of \$1.139 million.

** Including goodwill on acquisition of Aurora of \$1.139 million.

*** CRPNs.

Directors' Report

INFORMATION ON DIRECTORS

Andrew Moffat (Resigned 29 July 2016)

B.Bus, Curtin University, Perth

Experience and expertise

Andrew has in excess of 20 years of corporate and investment banking experience and is the principal of Cowoso Capital Pty Ltd, a company providing strategic corporate advisory services. Prior to establishing Cowoso Capital Pty Ltd, Andrew was a Director of Equity Capital Markets & Advisory for BNP Paribas Equities (Australia) Limited where he took principal responsibility for mergers and acquisition advisory services and a range of equity capital raising mandates.

Other current directorships in publicly listed companies

Pacific Star Network Limited
Rubik Financial Limited
360 Capital Group Limited
CCK Financial Solutions Limited

Former directorships in last three years in publicly listed companies

Nil

Special responsibilities

Chairman of Keybridge Capital Limited
Member of the Audit, Finance and Risk Committee
Member of the Remuneration and Nomination Committee

Interests in shares and options

3,991,453 KBC Indirect
600,000 KBC Indirect
160,876 KBCPA Indirect

Bill Brown (Resigned 10 August 2016)

B.Ec, ANU, LLB, University of Melbourne

Experience and expertise

Bill Brown has over 30 years' experience as a commercial lawyer and senior executive in both private practice and in-house legal and management roles. Bill's areas of expertise include mergers and acquisitions, corporate governance and regulated industries. Bill is currently the principal of Orange Advisory Pty Ltd, a company providing corporate governance and strategic advisory services, and the independent member of Crown Resorts Limited's Gaming Compliance Committee. In prior roles, he was a partner/principal in two Melbourne/Sydney law firms and the group legal and regulatory manager in one of Australia's largest ASX-listed gaming companies.

Other current directorships in publicly listed companies

Nil

Former directorships in last three years in publicly listed companies

Nil

Special responsibilities

Chairman of the Audit, Finance and Risk Committee
Member of the Remuneration and Nomination Committee

Directors' Report

Interests in shares and options

245,000 KBC Indirect
6,805 KBCPA Indirect

Antony Sormann

LLB, B.Ec, Monash University, Melbourne

Experience and expertise

Antony has over 20 years' experience in investment banking and legal advisory services, including nine years as a director of SLM Corporate Pty Ltd and six years working in the investment banking division of N.M. Rothschild & Sons (Australia) Limited of which two years were as an executive in the Rothschild Group's New York office.

Other current directorships in publicly listed companies

Molopo Energy Limited (From 29 December 2014)
PTB Group Limited (From 2 December 2015)

Former directorships in last three years in publicly listed companies

Nil

Special responsibilities

Acting Managing Director

Interests in shares and options

1,215,697 KBC Indirect
33,768 KBCPA Indirect

Simon Cato (Appointed 29 July 2016)

B.A. (Sydney)

Experience and expertise

Simon has had over 30 years capital markets experience in broking, regulatory roles and as director of listed companies. He initially was employed by the ASX in Sydney and then in Perth. From 1991 until 2006 he was an executive director and/or responsible executive of three stockbroking firms and in those roles he has been involved in many aspects of broking including management issues such as credit control and reporting to regulatory bodies in the securities industry. As a broker he was also involved in the underwriting of a number of IPO's and has been through the process of IPO listing in the dual role of broker and director.

Currently he holds a number of non executive roles with other listed companies in Australia.

Other current directorships in publicly listed companies

1. Non Executive Director of Bentley Capital Limited (BEL) (since 7 January 2015)
2. Non Executive Director of Greenland Minerals and Energy Limited (GGG) (since 2 February 2006)
3. Non Executive Chairman of Advanced Share Registry Limited (ASW) (since 22 August 2007)

Former directorships in last three years in publicly listed companies

1. Transaction Solutions International Limited (TSN) (26 February 2010 to 30 August 2013)
2. Queste Communications Ltd (QUE) (6 February 2008 to 3 April 2013)

Special responsibilities

Nil

Directors' Report

Interests in shares and options

Nil

William Johnson (Appointed 29 July 2016)

MA (Oxon), MBA, MAICD

Experience and expertise

William holds a Masters degree in engineering science from Oxford University, England and an MBA from Victoria University, New Zealand. His 30 year business career spans multiple industries and countries, with executive/CEO experience in oil and gas exploration (North Africa and Australia), mineral exploration and investment (Australia, Peru, Chile, Saudi Arabia, Oman and Indonesia), telecommunications infrastructure investment (New Zealand, India, Thailand and Malaysia) and information technology and Internet ventures (New Zealand, Philippines and Australia). William is a highly experienced public company director and has considerable depth of experience in business strategy, investment analysis, finance and execution.

Other current directorships in publicly listed companies

1. Managing Director of Strike Resources Limited (ASX:SRK) (since 25 March 2013; Director since 14 July 2006)
2. Executive Director of Bentley Capital Limited (ASX:BEL) (since 1 January 2016; Director since 13 March 2009)

Former directorships in last three years in publicly listed companies

1. Alara Resources Limited (ASX:AUQ) (26 October 2009 to 31 October 2013)
2. Cuervo Resources Inc. (CNQ:FE) (March 2013 to December 2013)

Special responsibilities

Nil

Interests in shares and options

Nil

John Patton (Appointed 10 August 2016)

B.Ec. (Monash University, Melbourne), CA (ICAA), F Fin (Finsia)

Experience and expertise

John is a senior executive with extensive finance experience in the corporate and professional services sectors. John was previously a partner with Ernst & Young in the Transactions Advisory Services division. With over 25 years of professional services and industry experience, John has extensive corporate finance credentials, having been involved in over 150 corporate transactions, including mergers & acquisitions (lead advisory), structuring, debt and equity raisings, IPOs, management buy-outs, valuations (including Independent Expert Reports), due diligence, financial modelling, restructuring and corporate advisory. In addition, John has held the positions of CFO, acting CEO and alternate director of Epic Energy Group, a major infrastructure owner of high-pressure gas transmission pipelines in Australia. This business was the core asset within the ASX-listed Hastings Diversified Utilities Fund.

Other current directorships in publicly listed companies

Metgasco Limited (From 19 September 2016)

Former directorships in last three years in publicly listed companies

Nil

Directors' Report

Special responsibilities

Nil

Interests in shares and options

150,000 KBC Indirect
4,166 KBCPA Indirect

Nicholas Bolton (Resigned 17 December 2015)

Experience and expertise

Nicholas Bolton is a, a substantial shareholder of Keybridge. Over the past 12 years, Nicholas has managed operational investments in the IT sector, invested in and led activist investments in a number of ASX-listed entities, as well as a number of risk arbitrage transactions focused on share class arbitrage, relative value and sum of parts analysis.

Nicholas is focused on delivering superior risk adjusted returns through active management and innovative solutions to challenging issues.

Other current directorships in publicly listed companies

Nil

Former directorships in last three years in publicly listed companies

PTB Group Limited (Resigned 18 November 2015)

Special responsibilities

Managing Director of Keybridge Capital Limited (Resigned 17 December 2015)

Interests in shares and options[#]

13,104,972 KBC Direct & Indirect
381,777 KBCPA Direct & Indirect

[#] At date of resignation.

Craig Coleman (Resigned 18 May 2016)

B.Com, University of Western Australia

Experience and expertise

Craig is Executive Chairman of Viburnum Funds Pty Ltd (Viburnum) and a Non-executive Director of family investment company Wyllie Group. Viburnum was a substantial shareholder in Keybridge until May 2016. He is a former Managing Director of publicly listed Home Building Society Limited and prior to this role Craig held a number of senior executive positions and directorships with ANZ including Managing Director Banking Products, Managing Director Wealth Management and Non-executive Director of E-Trade Australia Limited.

Other current directorships in publicly listed companies

Bell Financial Group Ltd
Pulse Health Group Ltd
Rubik Financial Ltd

Former directorships in last three years in publicly listed companies

Amcom Telecommunications Ltd
Lonestar Resources Ltd

Special responsibilities

Member of the Audit, Finance and Risk Committee (Resigned 18 May 2016)

Directors' Report

Chairman of the Remuneration and Nomination Committee (Resigned 18 May 2016)

Interests in shares and options*

197,930 KBC Indirect
95,555 KBCPA Indirect

* At date of resignation.

COMPANY SECRETARY

The Company Secretary is Ian Pamensky. Ian is a qualified Chartered Accountant with nearly 20 years of experience in finance, accounting and company secretarial services to both public and private companies.

MEETINGS OF DIRECTORS

In addition to scheduled meetings of the Board, Keybridge has an Audit, Finance and Risk Committee, and a Remuneration and Nomination Committee. The numbers of meetings of the Board of Directors and of each Committee held during the year ended 30 June 2016, and the numbers of meetings attended by each Director were as follows:

	Board		Audit, Finance and Risk Committee		Remuneration and Nomination Committee	
	A	B	A	B	A	B
Director						
Andrew Moffat	13	13	4	4	Nil	Nil
Nicholas Bolton*	6	6	N/A	N/A	N/A	N/A
Bill Brown	13	13	4	4	Nil	Nil
Craig Coleman**	11	11	3	3	Nil	Nil
Antony Sormann	13	13	N/A	N/A	N/A	N/A

A – Number of meetings held during the time the director held office during the period. B – Number of meetings attended.

* To 17 December 2015 ** To 18 May 2016

REMUNERATION REPORT (AUDITED)

This Remuneration Report comprises five sections as follows:

1. Organisational context.
2. Summary of Directors and senior executives.
3. Principles of Keybridge's approach to remuneration.
4. Trading in Keybridge securities.
5. Details of Directors' and senior executives' remuneration.

This Remuneration Report has been prepared for the Group for the year ended 30 June 2016 in accordance with section 300A of the Corporations Act and associated regulations. The Remuneration Report has been audited by the Group's auditor as required by section 308(3C) of the Corporations Act.

1. Organisational context – Audited

1.1 Business performance

The Group's business performance, in its own right and relative to other similar companies is to be considered by the Board and Remuneration and Nomination Committee as part of determining executive remuneration. The Remuneration and Nomination Committee may also have regard to a number of share market indices and other performance benchmarks in its considerations.

1.2 Remuneration at Keybridge

Keybridge has implemented remuneration arrangements for executives comprising fixed remuneration,

Directors' Report

short-term discretionary incentives and an Executive Share Plan (ESP) to act as an equity-based incentive scheme. All staff are remunerated on the basis of receiving a market-based Base Salary with any STI or LTI solely at the discretion of the Board.

2. Summary of Directors and senior executives – Audited

2.1 Directors

As at 30 June 2016*** the Directors of Keybridge were:

- Andrew Moffat, Chairman*.
- Bill Brown, Non-executive Director (appointed Chairman on 29 July 2016)**.
- Antony Sormann, Acting Managing Director.

** Andrew Moffat resigned from the Board on 29 July 2016.*

*** Bill Brown resigned from the Board on 10 August 2016.*

**** Subsequent to 30 June 2016, the following Directors were appointed to the Board:*

- *Simon Cato and William Johnson were appointed to the Board on 29 July 2016; and*
- *John Patton was appointed to the Board on 10 August 2016.*

2.2 Senior executives

The following persons were senior executives of the Group during the 2016 financial year:

- Nicholas Bolton, Managing Director (to 17 December 2015).
- Antony Sormann, Acting Managing Director (Executive Director to 17 December 2015) and (Acting Managing Director from 18 December 2015).
- Simon Lindsay, Managing Director (Aurora) (to 14 June 2016).
- John Corr, Chief Investment Officer (Aurora) (resigned on 27 June 2016 and left Aurora on 2 August 2016).
- Adrian Martin, Chief Financial Officer and Company Secretary (to 29 February 2016).
- Ian Pamensky, Chief Financial Officer and Company Secretary (from 8 February 2016).

3. Principles of Keybridge's approach to director remuneration – Audited

3.1 Overview of strategy and remuneration policy

Keybridge's approach to executive and non-executive director remuneration reflects a balance between the need to motivate, attract and retain directors and other key management personnel and the need to be economical in managing operating expenses.

Keybridge's Remuneration and Nomination Committee acts in accordance with a charter.

The remuneration policy for the year to 30 June 2016 was structured to incorporate fixed fees for the Chairman, Non-executive Directors, Managing Directors and Executive Director and fixed and discretionary potential bonus elements for executives, including the Managing Director. Any incentives recommended by the Remuneration and Nomination Committee need the approval of the Board.

Directors' Report

	Chairman, Non-executive Directors	Senior executives, including the Managing Director
Fixed remuneration		
Fees	Yes ^(a)	No
Salary	No	Yes
Superannuation	Yes ^(b)	Yes
Other benefits	Yes ^(c)	Yes ^(c)
Performance-based remuneration		
Short-term incentive and retention payments	No	No
Long-term incentive and retention share-based payments	No	Yes
Termination benefits	No	Yes

(a) The Chairman and Non-executive Directors can choose to invoice the Company or be included on the Company's payroll.

(b) The Chairman, Non-executive Directors, Managing Director and Executive Director have the right to elect to salary sacrifice a portion of their fees towards superannuation payments.

(c) Other benefits include car parking and travel costs and costs associated with services related to employment (inclusive of applicable Fringe Benefits Tax).

Each of these elements of remuneration is explained in further detail in the sections below.

3.2 Chairman and Non-executive Directors

Fees and other benefits

The Chairman's fee is \$80,000 per annum (plus statutory superannuation if on Keybridges payroll or plus GST if invoiced to Keybridge) and the Non-executive Directors' annual fee is \$60,000 (plus statutory superannuation if on the Keybridges payroll or plus GST if invoiced to Keybridge). There are no additional fees for chairing or being a member of a committee. The fees to the Chairman and Non-executive Directors were recommended by the Remuneration and Nomination Committee and set by the Board within a maximum aggregate annual amount of \$525,000 (being the amount approved at the Annual General Meeting on 28 November 2007). The aggregate amount of fees paid in the 2016 financial year was \$238,809 (2015: \$205,700). This includes \$20,000 paid to Chairman and \$20,000 paid to Non-executive director for extra services provided for the benefits of the Company.

Board members are also entitled to charge the Company for extra services or special exertions for the benefit of the company, in accordance with Keybridge's Constitution.

Board members are also entitled to be reimbursed for expenses properly incurred by them in attending any meeting or otherwise in connection with the business or affairs of the Group, in accordance with Keybridge's Constitution.

The Chairman and Non-executive Directors do not receive retirement allowances, bonuses or other performance-based incentive payments, and are not participant in any executive share scheme.

The structure and quantum of fees are reviewed annually and determined by the Board, after taking into account market practices for appropriate comparable roles. The Board also considers the time commitments being devoted by Keybridge's relatively small board, as well as the level of remuneration required to attract and retain directors of an appropriate calibre.

3.3 Executive remuneration

Keybridge's remuneration has been structured to be market competitive and to retain and motivate a small team of employees capable of delivering the Group's business objectives. Total remuneration for executives has historically consisted of a mix of 'fixed' and 'performance-based' elements however for the 2016 financial year there were no 'performance-based' elements of remuneration.

3.3.1 Fixed remuneration

The fixed element provides a regular base remuneration that reflects the applied professional competence of each executive according to his/her knowledge, experience and accountabilities. Executives' fixed remuneration comprises salary and may comprise other benefits (including statutory

Directors' Report

superannuation contributions) that may be taken in an agreed form, including cash, leased motor vehicles and additional superannuation, provided no extra cost is incurred by the Group.

3.3.2 Performance-based reward

Keybridge presently has no formal performance-linked incentive arrangements. Any bonus in addition to base remuneration is determined solely at the discretion of the Board.

Employment conditions, including basic remuneration entitlements, for the Group's senior executives are formalised in service agreements. Key features are shown in the following table:

Name	Term of contract	Notice period by either party	Termination benefit*
Managing Director, ^(a) Nicholas Bolton	No fixed term	3 months	3 months of current annual salary
Executive Director, Antony Sormann	No fixed term	3 months	3 months of current annual salary
Managing Director (AFML) ^(b) , Simon Lindsay	No fixed term	3 months	3 months of current annual salary
Chief Investment Officer (AFML) ^(c) , John Corr	No fixed term	3 months	3 months of current annual salary
Company Secretary Ian Pamensky	No fixed term	1 month	1 month of current retainer fees
Company Secretary, ^(d) Adrian Martin	No fixed term	3 months	6 months of current annual salary

^(a) To 17 December 2015. ^(b) To 14 June 2016. ^(c) Resigned on 27 June 2016 and left on 2 August 2016. ^(d) To 29 February 2016.

* A termination benefit is not payable in the case of dismissal.

4. Trading in Keybridge securities – Audited

4.1 Securities Trading Policy

Keybridge's Securities Trading Policy sets out Keybridge's position regarding dealing in the Group's securities. The Policy states:

- Directors, senior executives and other employees may not deal in Keybridge securities during the nominated blackout periods set out in the Policy;
- clearance must be obtained from an approving officer prior to trading in Keybridge's securities; and
- notification of any share trading must be made in accordance with the Policy to the Company Secretary.

4.2 Hedging of Keybridge securities

Keybridge's Securities Trading Policy sets out the Group's position regarding hedging of vested and unvested Keybridge securities. The policy provides that:

- Directors and senior executives are prohibited from entering into hedging transactions in relation to securities that have not yet vested, or that are held subject to a holding lock or restriction on dealing under an employee share plan operated by Keybridge;
- clearance must be obtained from an approving officer prior to entering into a hedging transaction in relation to vested securities; and
- clearance from an Approving Officer as defined in the Policy and notification of any hedging transaction must be made in accordance with the Policy.

A breach of the Policy by an employee may lead to disciplinary action, including dismissal in serious cases. It may also be a breach of law.

Directors' Report

5. Details of Directors' and senior executives' remuneration – Audited

5.1 Total remuneration paid or payable to Non-executive Directors

Total remuneration received by the Chairman and Non-executive Directors in the 2016 financial year was \$ 238,809 (2015:\$ 205,700). Payments and non-monetary benefits received by the Chairman and Non-executive Directors individually are set out in the following table:

	Short-term employee benefits	Post-employment benefits	
	Cash fees \$	Company contributions to superannuation \$	Total \$
Chairman			
<i>Andrew Moffat</i>			
2016	100,219*	—	100,219
2015	80,000	—	80,000
Non-executive Directors			
<i>Bill Brown</i>			
2016	80,000*	5,700	85,700
2015	60,000	5,700	65,700
<i>Craig Coleman</i>			
2016 ^(a)	52,890	—	52,890
2015	60,000	—	60,000
Total Chairman and Non-executive Directors			
2016	233,109	5,700	238,809
2015	200,000	5,700	205,700

(a) Resigned 17 May 2016.

* Includes a \$20,000 charge to the Company for extra services or special exertions for the benefit of the Company.

5.1.1 Share-based payments to Non-executive Directors

No shares have been granted to the Chairman and Non-executive Directors for the 2016 financial year. Neither the Chairman nor any Non-executive Directors are a participant in any employee share scheme conducted by Keybridge.

Directors' Report

5.2 Total remuneration paid or payable to senior executives

The following table itemises the total remuneration cost recorded for senior executives, including for the Managing Director and Executive Director:

	Short-term employee benefits				Post-employment benefits			
	Cash salary (including consulting fees) \$	Short term incentive cash bonus \$	Share-based payments \$	Non- monetary \$	Company contributions to superannuation \$	Total \$	Proportion of remuneration performance related %	Value of shares as a proportion remuneration %
Senior executives								
<i>Nicholas Bolton, Managing Director*</i>								
2016	185,608	—	99,162	—	9,654	294,424	—	33.7%
2015	389,792	—	19,813	—	18,783	428,388	—	4.6%
<i>Antony Sormann, Executive Director and Acting Managing Director[#]</i>								
2016	295,381	—	66,108	—	19,308	380,797	—	17.4%
2015	257,913	—	12,956	—	14,088	284,957	—	4.5%
<i>Simon Lindsay, Managing Director (AFML)</i>								
2016	364,858 ^{^^}	—	— ^{^^^}	—	19,308	384,166	—	—
2015 ^{**}	60,327	—	1,533	—	4,444	66,304	—	2.3%
<i>John Corr, Chief Investment Officer (AFML)^{**}</i>								
2016	193,569 ^{^^}	—	— ^{^^^}	—	19,308	212,877	—	—
2015 ^{**}	47,250	—	2,044	—	4,444	53,738	—	3.8%
<i>Adrian Martin, Company Secretary^{###}</i>								
2016	165,815	—	—	—	12,876	178,691	—	—
2015	203,530	—	—	—	18,783	222,313	—	—
<i>Ian Pamensky, Company Secretary^{####}</i>								
2016	87,300	—	—	—	—	87,300	—	—
2015	—	—	—	—	—	—	—	—
Totals								
2016	1,292,531	—	165,270	—	80,454	1,538,255	—	—
2015	958,812	—	36,346	—	60,542	1,055,700	—	—

* Resigned 17 December 2015. ^ Fees paid are included in professional fees. Refer Note 28. ** From 27 March 2015. ^^ Includes leave entitlements, termination and redundancy payments at the date of resignation. ^^ The Share based payment (SBP) costs for the 2015 and 2016 financial year for John Corr and Simon Lindsay were \$39,371 and \$29,528 respectively. These SBP costs were reversed at the date of resignation. # From 17 December 2015. ### Resigned 29 February 2016. #### Joined on 8 February 2016 and was appointed Company Secretary on 29 February 2016.

5.2.1 Executive Share Plan for 2016 financial year

On 28 November 2014, shareholders approved a new Executive Share Plan (ESP). For accounting purposes, the loans are accounted for as options under a share based payments plan.

The ESP involves Keybridge providing interest-bearing limited-recourse loans to eligible employees to purchase ordinary shares in the capital of Keybridge which to date have been issued in two tranches. There are two separate loan arrangements for the two tranches and, as part of both loan arrangements, Keybridge has taken security over those ordinary shares, and are held in escrow to secure repayment of the relevant loans. The interest rate of the loans is a fixed rate of 6.45% per annum for the term of the loans, capitalised monthly to the loans, with the term of the loans being 3 years and 3 months.

Upon acquisition of Aurora, their employees were offered to participate in the ESP on similar loan terms. All ESP shares issued to Aurora employees were cancelled during the year due to redundancies, resignations and the sale of Aurora on 30 June 2016. At 30 June 2016 all loans, interest and associated shares were reversed.

The share price on grant date for Keybridge employees was 18.65 cents per share and Aurora employees was 19.90 cents per share.

Directors' Report

The exercise price on Tranche 1 for Keybridge employees was 23.0 cents and for Aurora employees was 24.4 cents, additionally, for the second tranche of shares to Keybridge employees only, there is an additional release payment payable at the end of the term of the loans by the relevant participating employees of 11.5 cents per share. None of the loans may be repaid early, unless otherwise agreed between the relevant employee and Keybridge. The loans for the two tranches are not cross-collateralised.

Both tranches of shares are subject to a holding lock under escrow arrangements, such that they are not capable of being sold for a period of three years from their date of issue.

In any event, the shares may only be released to the relevant employees if certain vesting and service conditions are met, including Keybridge's share price reaching levels equivalent to a defined strike price and the relevant employees paying a top up amount being equal to the difference between the issue price and the vesting price. As the limited-recourse loan is used only with newly issued shares, rather than with shares bought on market, shareholders are not exposed to any cash loss risk arising from the limited-recourse loan.

Due to the recourse nature of the interest to the participants of the ESP, interest income was originally incorrectly recognised in the Statement of Comprehensive Income and should have been recognised in an equity reserve under share-based payments (SBP) on the Statement of Financial Position. As Keybridge did not pursue employees who left the group, a decision was made to reverse accrued interest on the loans at 30 June 2016.

During the previous year to 30 June 2015, the following loans were made to Key Management Personnel to purchase 18,500,000 shares under the terms of the ESP. At 30 June 2016 there were 15,000,000 shares remaining under the ESP after resignations, retrenchments and the sale of Aurora.

		Transactions value year ended 30 June**		Balance outstanding* as at 30 June	
		2016 \$	Restated^ 2015 \$	2016 \$	Restated^ 2015 \$
Director	Transaction				
Nicholas Bolton	Executive Share Plan Loan	75,559	(190,440)	1,563,618	1,488,060
Antony Sormann	Executive Share Plan Loan	50,373	(126,961)	1,042,412	992,039
John Corr^^	Executive Share Plan Loan	–	(49,341)	–	348,659
Simon Lindsay^^	Executive Share Plan Loan	–	(37,006)	–	261,494
Total		125,932	(403,748)	2,606,030	3,090,252

* Due to the recourse nature of the interest to the participants of the ESP, interest income was originally 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. In response to KBC not pursuing employees who have left the KBC Group, a decision was made to not accrue interest on the loans at 30 June 2016.

** Net of interest charges and repayments. The repayments represent payments in lieu of the CRPNs issued and dividends.

^ This includes an adjustment relating to the value of the CRPNs issued incorrectly – Refer Note 5 (Correction of prior year errors).

^^ Resigned pre-30 June 2016 and loans cancelled.

Equity instruments – audited

The tables below refer to the implicit call option cost that has been attributed to the arrangement between Keybridge and certain executives for the purchase of ordinary shares in Keybridge Capital Limited, and which have already been issued to the executives under the ESP and held in escrow until repayment of the loans.

Directors' Report

Implicit Option Value relating to the ESP shares issued as compensation – audited

Details of the ESP shares (accounted for as options) granted as compensation to key management personnel during the reporting period, and the details on the vesting of these shares during the reporting period are as follows:

	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%

* As reflected in the table above, 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.

	Number of shares granted under the ESP during 2015	Grant date	Restated - Fair value of the Option component of the ESP at grant date \$	Restated - Implied option exercise price per share \$	Expiry date	Number of shares fully vested during 2015	Number of shares fully vested during 2016
ESP Shares							
Nicholas Bolton	6,000,000	19 Dec 2014	0.0420	0.230	31 Dec 2017	–	2,000,000
Nicholas Bolton	3,000,000	19 Dec 2014	0.0232	0.345	31 Dec 2017	–	1,000,000
Antony Sormann	4,000,000	19 Dec 2014	0.0420	0.230	31 Dec 2017	–	1,333,333
Antony Sormann	2,000,000	19 Dec 2014	0.0232	0.345	31 Dec 2017	–	666,666
John Corr	2,000,000	28 April 2015	0.0510	0.244	30 June 2018	–	– #
Simon Lindsay	1,500,000	28 April 2015	0.0510	0.244	30 June 2018	–	– #

666,666 shares of John Corr and 500,000 shares of Simon Lindsay vested in April 2016. These shares were cancelled on resignation after the employees did not take up the vested shares at that date.

All rights to retain the shares under the ESP expire on the earlier of their expiry date or termination of the individual's employment. The shares vest progressively over the period to 30 June 2018, subject to continuing employment and the outstanding loan and accumulated interest balance being paid in full.

Vesting of shares granted as compensation

During the reporting period, 6,306,665 shares vested (2015: Nil). This includes 1,306,666 shares relating to Aurora employees. All vested shares relating to Aurora employees were cancelled due to redundancies, resignation and the sale of Aurora.

Directors' Report

Details of equity incentives affecting current and future remuneration – audited

Details of vesting profiles of the shares (accounted for as options) held by each key management person of the Group under the ESP are detailed below:

	Number of ESP shares issued	Grant date	% vested in year	% forfeited in year (A)	Financial years in which grant vests
Nicholas Bolton	2,000,000	19 Dec 2014	100.0%	—%	30 June 2016
Nicholas Bolton	1,000,000	19 Dec 2014	100.0%	—%	30 June 2016
Nicholas Bolton	2,000,000	19 Dec 2014	—%	—%	30 June 2017
Nicholas Bolton	1,000,000	19 Dec 2014	—%	—%	30 June 2017
Nicholas Bolton	2,000,000	19 Dec 2014	—%	—%	30 June 2018
Nicholas Bolton	1,000,000	19 Dec 2014	—%	—%	30 June 2018
Antony Sormann	1,333,334	19 Dec 2014	100.0%	—%	30 June 2016
Antony Sormann	666,667	19 Dec 2014	100.0%	—%	30 June 2016
Antony Sormann	1,333,333	19 Dec 2014	—%	—%	30 June 2017
Antony Sormann	666,667	19 Dec 2014	—%	—%	30 June 2017
Antony Sormann	1,333,333	19 Dec 2014	—%	—%	30 June 2018
Antony Sormann	666,666	19 Dec 2014	—%	—%	30 June 2018
John Corr	666,667	28 April 2015	100.0%	100% [#]	30 June 2016
John Corr	666,667	28 April 2015	—%	100% [#]	30 June 2017
John Corr	666,666	28 April 2015	—%	100% [#]	30 June 2018
Simon Lindsay	500,000	28 April 2015	100.0%	100% [#]	30 June 2016
Simon Lindsay	500,000	28 April 2015	—%	100% [#]	30 June 2017
Simon Lindsay	500,000	28 April 2015	—%	100% [#]	30 June 2018

(A) The percentage forfeited in the year represents the reduction from the maximum number of instruments available to vest due to service conditions not being achieved.

[#] Cancelled on resignation after the employees did not take up the vested shares at that date.

Analysis of movements in equity instruments – audited

The movement during the reporting period, by value, of the implied option value contained in the ESP arrangement for shares in Keybridge issued under the ESP, held by each key management person is detailed below:

	Total value of all shares granted (A) - \$	Value of shares vested in year (B) - \$	Lapsed in year (C)
Nicholas Bolton – Tranche 1	252,000	77,702	—
Nicholas Bolton – Tranche 2	69,600	21,460	—
Antony Sormann – Tranche 1	168,000	51,801	—
Antony Sormann – Tranche 2	46,400	14,307	—
John Corr*	102,400	31,601**	[#]
Simon Lindsay*	76,800	23,701**	[#]

(A) The implicit option value of the shares granted in the year is based on the fair value calculated using a Black-Scholes model at grant date. The amounts calculated are allocated to the executives' remuneration over the entire vesting period (i.e. in years 19 December 2014 to 1 October 2017 and in years *28 April 2015 to 1 April 2018).

(B) The Option value of shares vested during the year is calculated as the market price of shares of Keybridge as at close of trading on the date the shares were issued above the price paid upon issue of the shares.

(C) The Option value of and rights to shares under the ESP that lapsed during the year represents the benefit forgone and is calculated at the date the shares lapsed using the Black Scholes option-pricing model assuming the performance criteria had been achieved.

* Cancelled on resignation after the employees did not take up the vested shares at that date..

[#] Cancelled on resignation. ** Costs reversed on resignation.

Directors' Report

Changes to holdings in Shares under the ESP during the period

The movement during the reporting period, by number of ordinary shares in Keybridge issued under the ESP held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2015	Granted as compensation	Exercised	Vested during the year and not exercisable during the year	Held at 30 June 2016	Other changes	Unvested and unexercisable at 30 June 2016
Shares							
Nicholas Bolton	9,117,739	—	—	3,000,000	9,000,000	(117,739)*	6,000,000
Antony Sormann	6,078,492	—	—	1,999,999	6,000,000	(78,492)*	4,000,001
John Corr	2,000,000	—	—	666,666 [^]	—	(2,000,000) [^]	—
Simon Lindsay	1,500,000	—	—	500,000 [^]	—	(1,500,000) [^]	—

* 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. The 2015 financial statements were restated to reflect this change - refer Note 5 – Correction of prior year errors.

[^] Cancelled on resignation.

Other related party transactions

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

		Transactions value year ended 30 June		Balance outstanding* as at 30 June	
		2016 \$	2015** \$	2016 \$	2015 \$
Director	Transaction				
Antony Sormann*	Consultant fees	—	77,000	—	—
		—	77,000	—	—

* Antony Sormann was appointed as Executive Director on 6 March 2014. ** Keybridge engaged the consultancy services of Nero Capital Pty Ltd, where Antony Sormann is a director, in relation to assistance and input over sale of assets and new investment opportunities. Amounts were billed based on market rates for such services and were due and payable under standard payment terms. This arrangement terminated in September 2014 when Antony Sormann became an employee of Keybridge Capital.

Movements in shares

The numbers of shares in Keybridge held during the financial year by key management personnel of the Group, including their personally-related entities is set out below:

	Held at 1 July 2015	Purchases	Sales	Other	Held at 30 June 2016
Directors					
Andrew Moffat	3,991,543	600,000	—	—	4,591,543
Nicholas Bolton	13,104,972**	—	—	—	13,104,972 [#]
Bill Brown	245,000	—	—	—	245,000
Craig Coleman [^]	3,440,000	—	3,242,070	—	197,930
Antony Sormann	1,215,697	—	—	—	1,215,697
Other key management personnel					
Simon Lindsay ^{^^}	768,869	—	—	—	&
John Corr ^{^^^}	1,459,091	—	—	—	&
Adrian Martin*	182,354	—	—	—	&
Ian Pamensky	—	—	—	—	—
Total	24,407,526	600,000	3,242,070	—	19,355,142

[#]To 17 December 2015. ^{*}To 29 February 2016. [^]To 18 May 2016 ^{^^}To 14 June 2016 ^{^^^}To 27 June 2016

^{**} Restated to reflect information per Appendix 3Y (Change of Director's Interest Notice)

& - Details of shareholding were not disclosed at the date of resignation.

Directors' Report

	Held at 1 July 2014	Purchases	Sales	Other	Held at 30 June 2015
Directors					
Andrew Moffat	2,940,000	1,051,543	—	—	3,991,543
Nicholas Bolton	366,238 [#]	12,738,734	—	—	13,104,972
Bill Brown	170,000	75,000	—	—	245,000
Craig Coleman	2,940,000	500,000	—	—	3,440,000
Antony Sormann	1,200,000	15,697	—	—	1,215,697
Other key management personnel					
Simon Lindsay*	—	768,869	—	—	768,869
John Corr*	—	1,459,091	—	—	1,459,091
Adrian Martin	180,000	2,354	—	—	182,354
Total	7,796,238	16,611,288	—	—	24,407,526

* From 27 March 2015.

[#] Restated to reflect information per Appendix 3Y (Change of Director's Interest Notice) – 19 March 2014

Movements in convertible redeemable promissory notes (CRPN)

The numbers of CRPN in Keybridge held during the financial year by key management personnel of the Group, including their personally-related entities is set out below.

	Held at 1 July 2015	Purchases	Sales	Other	Held at 30 June 2016
Directors					
Andrew Moffat	110,876	50,000	—	—	160,876
Nicholas Bolton	364,026**	17,745	—	— [#]	381,771 [#]
Bill Brown	6,805	—	—	—	6,805
Craig Coleman [^]	95,555	—	—	—	95,555
Antony Sormann	202,615	—	—	(168,847) ^{^^}	33,768
Other key management personnel					
Simon Lindsay*	63,023	—	—	—	&
John Corr*	80,807	—	—	—	&
Ian Pamensky	—	—	—	—	—
Adrian Martin	5,064	—	—	—	&
Total	928,771	67,745	—	(168,847)	678,775

* From 27 March 2015. ** Restated to reflect information per Appendix 3Y (Change of Director's Interest Notice).

***To 29 February 2016. [^]To 18 May 2016. & - Details of shareholding were not disclosed at the date of resignation.

^{^^} CRPNs were incorrectly issued to ESP holders. The 2015 financial statements were restated to reflect these changes – Refer Note 5 (Correction of prior year errors). The share register was only corrected in March 2016.

[#] To date of resignation - 17 December 2015. 253,270 CRPNs were cancelled after Nicholas Bolton's resignation.

NON-AUDIT SERVICES

Keybridge may decide to employ its auditor (Deloitte) on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the year are set in Note 35 to the Financial Statements.

The Board has considered the position and, in accordance with the advice received from the AFRC, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001*.

A copy of the Lead Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 28 and forms part of this Report.

Directors' Report

INDEMNITIES AND INSURANCE

In addition to the amounts disclosed for remuneration of Directors and key management, Keybridge pays a premium each year in respect of Directors' and Officers' insurance. In accordance with normal commercial practice, disclosure of the premium payable under, and the nature of the liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

ENVIRONMENTAL REGULATION

The operations of the consolidated entity are not subject to any particular or significant environmental regulation under Commonwealth, State or Territory Law.

Rounding off

Keybridge is company of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This Report is made in accordance with a Resolution of Directors.



Antony Sormann
Director

Melbourne, 2 October 2016

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

2 October 2016

Dear Sirs,

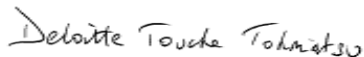
Keybridge Capital Limited

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.

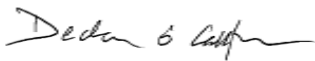
As lead audit partner for the audit of the financial report of Keybridge Capital Limited and its Controlled Entities for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Declan O'Callaghan
Partner
Chartered Accountants

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Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2016

	Note	2016 \$'000	Restated** 2015 \$'000
Revenue and income			
Fees	7	121	346
Interest income	8	991	1,899
Net unrealised gain/(loss) on investments		639	(320)
Net realised gain on disposal of investments		378	207
Unrealised gain on derivative liabilities		198	-
Share of profits from investments in associates	19	361	-
Dividend received		517	616
Net foreign currency gain/(loss) on foreign currency assets		53	1,194
Settlement fees	9(a)	3,336	-
Other income	9(b)	548	95
Operating income		7,142	4,037
Expenses			
Impairment expenses and carrying value adjustments	17(b)	(376)	915
Administration expenses		(346)	(349)
Employment costs	10	(1,248)	(1,190)
Legal and professional fees	11	(1,837)	(2,154)
Other expenses		(244)	(205)
Results from operating activities		3,091	1,054
Finance costs		(312)	(5)
Profit before income tax		2,779	1,049
Income tax benefit/(expense)	12	-	(172)
Profit for the period		2,779	877
Discontinued operation			
Loss from discontinued operation (net of tax)*	30	(5,270)	(158)
(Loss)/Profit for the period		(2,491)	719
(Loss)/Profit attributable to:			
Owners of Keybridge		(2,265)	719
Non-controlling interests		(226)	-
(Loss)/Profit for the period		(2,491)	719
Earnings per share from continuing operations attributable to the owners of Keybridge Capital Limited			
		Cents	Cents
Basic profit/(loss) (cents per share)	24	1.75	0.55
Diluted profit/(loss) (cents per share)	24	1.75	0.55
Earnings per share from discontinued operations attributable to the owners of Keybridge Capital Limited			
		Cents	Cents
Basic profit/(loss) (cents per share)	24	(3.17)	(0.10)
Diluted profit/(loss) (cents per share)	24	(3.17)	(0.10)
Earnings per share for loss attributable to the owners of Keybridge Capital Limited			
		Cents	Cents
Basic (loss)/profit (cents per share)	24	(1.42)	0.45
Diluted (loss)/profit (cents per share)	24	(1.42)	0.45

*Includes the loss on sale of Aurora Funds Management Limited on 30 June 2016. ** Refer Note 5 – Correction of prior year errors

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements.

Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

Note	Share capital \$'000	Reserves				Retained earnings/ losses \$'000	Total \$'000	Non- controlling interests \$'000	Total equity \$'000
		Treasury Share Reserve \$'000	Share- based payments \$'000	Foreign exchange translation \$'000	Profits reserve \$'000				
Restated balance at 1 July 2015	253,809	–	264	–	571	(221,777)	32,867	–	32,867
Total comprehensive income for the period									
Profit/(loss) for the period from continuing operation	–	–	–	–	1,750	1,029	2,779	–	2,779
Profit/(loss) for the period from discontinued operation	–	–	–	–	–	(5,044)	(5,044)	(226)	(5,270)
Total comprehensive income for the period	–	–	–	–	1,750	(4,015)	(2,265)	(226)	(2,491)
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Acquisition of company own shares via on-market buyback	(92)	–	–	–	–	–	(92)	–	(92)
Dividends	–	–	–	–	–	–	–	–	–
Transfer between retained earnings	–	–	–	–	(795)	–	(795)	–	(795)
Recognition of share-based payment reserve 10	–	–	150	–	–	–	150	–	150
Reversals from share-based payment reserve	–	–	(127)	–	–	–	(127)	–	(127)
NCI on disposal of Ledcom	–	–	–	–	–	–	–	226	226
Total transactions with owners of the Company	(92)	–	23	–	(795)	–	(864)	226	(638)
Balance at 30 June 2016	253,717	–	287	–	1,526	(225,792)	29,738	–	29,738

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements

Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the year ended 30 June 2015

Note	Reserves					Retained earnings/ losses \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
	Share capital \$'000	Treasury Share Reserve \$'000	Share-based payments \$'000	Foreign exchange translation \$'000	Profits reserve \$'000				
Balance at 1 July 2014	258,118	—	—	—	—	(221,528)	36,590	—	36,590
Total comprehensive income for the period	—	—	—	—	—	—	—	—	—
Profit for period	—	—	—	—	968	—	968	—	968
Total comprehensive income for the period	—	—	—	—	968	—	968	—	968
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Issue of ordinary shares	500	—	—	—	—	—	500	—	500
Dividends	—	—	—	—	(434)	—	(434)	—	(434)
Issue of ordinary shares related to dividend reinvestment	225	—	—	—	—	—	225	—	225
Acquisition of company own shares via on-market buyback	(571)	—	—	—	—	—	(571)	—	(571)
Capital return via convertible redeemable promissory notes	(4,957)	—	—	—	—	—	(4,957)	—	(4,957)
Equity settled share-based payment	—	—	37	—	—	—	37	—	37
Total transactions with owners of the Company	(4,803)	—	37	—	(434)	—	(5,200)	—	(5,200)
Balance at 30 June 2015	253,315	—	37	—	534	(221,528)	32,358	—	32,358
Restatements*	494	—	227	—	37*	(249)	509	—	509
Restated balance at 1 July 2015	253,809	—	264	—	571	(221,777)	32,867	—	32,867

* Restated due to errors in the treatment of interest income and ESP expenses during the period – see Note 5.4 for further details.

The Consolidated Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements.

Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	2016 \$'000	Restated 2015** \$'000
Cash and cash equivalents	14(a)	1,665	2,833
Trade and other receivables		350	1,680
Loans and Receivables – net of impairment	17(a)	774	1,754
Financial assets at fair value through profit or loss	18(a)	13,095	15,433
Other assets		–	413
Total current assets		15,884	22,113
Loans and Receivables – net of impairment	17(a)	16,448	16,611
Goodwill	16	–	1,139
Intangible	16	–	3,797
Trade and other receivables		–	127
Investments in associates	19	2,662	–
Property, plant and equipment	15	14	56
Total non-current assets		19,124	21,730
Total assets		35,008	43,843
Payables	20	1,050	3,301
Financial liabilities at fair value through profit or loss	18(b)	17	1,090
Borrowings	21	–	1,020
Total current liabilities		1,067	5,411
Deferred tax liabilities	13	–	1,139
Financial liabilities at fair value through profit or loss	18(c)	4,203	4,426
Total Noncurrent liabilities		4,203	5,565
Total liabilities		5,270	10,976
Net assets		29,738	32,867
Equity			
Share capital	22	253,717	253,809
Reserves		1,813	835
Retained earnings/(losses)		(225,792)	(221,777)
Total equity attributable to equity holders of Keybridge		29,738	32,867

** Refer Note 5 – Correction of prior year

The Consolidated Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements.

Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

	Note	2016 \$'000	Restated 2015** \$'000
Cash flows from operating activities			
Fees received		1,991	290
Interest received		469	1,659
Payments to suppliers and employees		(7,207)	(3,774)
Interest payment		(332)	–
Realised cash from foreign exchange		(420)	85
Income tax (paid)/received		–	1
Other income		3,885	95
Net cash from/(used in) operating activities	14(b)	(1,614)	(1,644)
Cash flows from investing activities			
Dividends received		100	22
Payments for purchase of loans and receivables		–	(3,736)
Proceeds from sale/repayments of loan and receivables		1,163	4,676
Disposal of discontinued operations, net of cash disposed of		153	–
Acquisition of subsidiary, net of cash acquired		–	(2,092)
Net proceeds/ (payments) from/ for financial assets held at fair value through profit or loss		937	(8,634)
Net cash from/(used in) investing activities		2,353	(9,764)
Cash flows from financing activities			
Repurchase of Keybridge own shares (market buy-back)		(92)	(572)
Proceeds from the issue of ordinary share capital		–	500
Dividends paid		(795)	(208)
Repayment of loans and borrowings		(1,020)	–
Net cash from/(used) in financing activities		(1,907)	(280)
Net increase/(decrease) in cash and cash equivalents		(1,168)	(11,688)
Cash and cash equivalents at 1 July		2,833	14,535
Effect of exchange rate fluctuations on cash held		–	(13)
Cash and cash equivalents at 30 June	14(a)	1,665	2,833

** Refer Note 5 – Correction of prior year

The Consolidated Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements.

Notes to the Financial Statements

For the year ended 30 June 2016

1. REPORTING ENTITY

Keybridge Capital Limited (referred to as Keybridge) is a company incorporated and domiciled in Australia. The Consolidated Financial Statements of Keybridge as at and for the year ended 30 June 2016 comprise Keybridge and its subsidiaries (together referred to as the Group) and the Group's interests in associates. Keybridge is a for-profit entity and is primarily involved as a financial services company that has invested in, or lent to, transactions which predominantly are in the core asset classes of funds management, infrastructure, listed equity, private equity, insurance, property and lending.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2016 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

(a) Statement of compliance

The Consolidated Financial Statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The Consolidated Financial Statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB). The Consolidated Financial Statements were approved by the Board of Directors on 30 September 2016.

(b) Basis of preparation

The Consolidated Financial Statements have been prepared on the historical cost basis except for 'Financial assets and financial liabilities at fair value through the profit or loss, which are measured at fair value. The methods used to measure fair values are discussed further in Note 4.

Keybridge is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016 and in accordance with that Corporations Instrument, all financial information presented in Australian Dollars has been rounded to the nearest thousand unless otherwise stated.

(c) Functional and presentation currency

These Consolidated Financial Statements are presented in Australian Dollars, which is Keybridge's functional currency and the functional currency for the entire Group.

(d) Use of estimates and judgements

The preparation of Consolidated Financial Statements in conformity with AASB requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. In particular, information about significant areas of estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following Notes:

- Note 13 – Deferred tax assets and liabilities.
- Note 17 – Loan and receivables: Judgements have been made in the determination of the carrying, fair value and the recoverability of various loans and receivables. In making these Judgements, Keybridge has given additional consideration to loans and receivables that have not been making interest and principal repayments during the financial year.
- Note 30 – Discontinued operations: Judgements have been made in the determination of the additional sale considerations relating to the sale of the assets sold during the financial year. In making these Judgements, Keybridge has determined the probability of receipt to the various additional considerations defined in the sale agreements.

Notes to the Financial Statements

2. BASIS OF PREPARATION *(continued)*

(e) Adoption of revised accounting standards

For the current reporting period, the Group has applied the following amendment to AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2015, and therefore relevant for the current year end.

<i>AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'</i>	This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that.
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The application of this amendment does not have any material impact on the disclosures of the amounts recognised in the Group's consolidated financial statements.

(f) Segment information

The amendment to AASB 8 clarifies that the Group needs to disclose the measures of total assets and liabilities for a particular reportable segment only if the amounts are regularly provided to the Group's chief operating decision maker, and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements and have been applied consistently by the Group entities, except as explained in Note 2(e), which address changes in accounting policies.

a. Basis of consolidation

(i) Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see (a)(ii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related Non-Controlling Interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(iv) *Investments in equity-accounted investees*

The Group's interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of the profit or loss and Other Comprehensive Income (OCI) of equity-accounted investees, until the date on which significant influence or joint control ceases.

(v) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b. Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

c. Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign currency losses on foreign assets are recognised as an expense in the Consolidated Statement of Comprehensive Income.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

d. Financial instruments

The Group initially recognises Loans and Receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: Financial assets at fair value through profit or loss and Loans and Receivables.

Cash and cash equivalents comprise cash balances, call deposits and short term deposits.

Accounting for interest income and borrowings costs is discussed in Notes 3(j) and 3(k).

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available-for-sale.

Changes in the fair value of financial assets at fair value through profit and loss are recognised in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition Loans and Receivables are measured using the effective interest method, less any impairment losses.

The collectability of debts is assessed at reporting date and where required specific provision is made for any doubtful debts or on a collective basis for a portfolio of loans considered collectively impaired. Refer to Note 3(e).

Loan write-offs

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from the realisation of security have been received.

Other financial liabilities

The Group initially recognises other financial liabilities on the date that they are originated, which is the date the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method. CRPNs are measured at fair value.

Other financial liabilities comprise loans and borrowings and trade payables.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax effects.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Repurchase, disposal and reissue of share capital (*treasury shares*)

When share capital recognised as equity is repurchased and cancelled, the amount of the consideration paid which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity.

When the Group repurchases shares to provide shares to employees under an employee equity plan, when the shares are assigned to employees the cost of these shares is transferred to the share-based payment reserve.

e. Impairment of financial assets

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.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Group considers evidence of impairment for Loans and Receivables at a specific asset level. All Loans and Receivables are assessed for specific impairment.

Future cash flows for Loans and Receivables in the infrastructure segment have taken into account longer term market indicators, such as future energy prices. The reason for the longer term market indicators being used is due to the fact that financial assets are not expected to be realised over the short term. Individually significant financial assets are tested for impairment on an individual basis.

All impairments are recognised in profit or loss. An impairment loss is reversed where such reversal can be related objectively to an event occurring after the impairment was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

f. Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

g. Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'other income' in profit or loss.

(ii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

- Leasehold improvements: 13 years.
- Furniture and fittings: 5 years.
- Computer equipment: 3 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

h. Intangible assets and goodwill

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortised.

i. Employee benefits

(i) Short term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as superannuation workers' compensation insurance and payroll tax.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

A provision is recognised for the amount expected to be paid under short-term cash retention or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) *Retirement benefit obligations*

Contributions to a defined contribution fund are recognised as an expense as they become payable. These are paid into a separate entity and the Group has no legal or constructive obligation to pay further amounts. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) *Share-based payment transactions*

The fair value of performance rights granted to employees in relation to any Employee Equity Plan is measured at grant date and recognised as an employee expense, with a corresponding increase in equity, over the period in which the performance rights vest. The grant date is defined as the date when Keybridge and employee have a shared understanding of the terms and conditions.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date.

j. Fees and interest income

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset to the carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Where there are uncertainties in relation to the collectability of interest income, the Group will determine whether income is probable. Where it is not probable, the interest is accordingly not accrued.

The Group receives fees for such services as loan extensions or debt facility management. Fees that are integrated in the effective yield of the financial assets are included in the measurement of the effective interest rate.

Management and performance fee revenue

Management fee revenue is recognised in profit or loss as it accrues based on the entitlements set out in the relevant investment management agreements, and listed and unlisted fund constitutions or product disclosure statements. Performance fee revenue is recognised in profit or loss when Keybridge's entitlement to it becomes certain, usually at the end of the period to which the fee relates.

k. Finance/Interest income and finance costs

Finance expenses comprise interest expense on borrowings and accrual of deferred establishment fees over the term of each loan. Foreign currency gain or losses on borrowings are disclosed separately. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

I. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Tax consolidation

Keybridge is the Head Entity of the tax consolidated group comprising all the Australian wholly-owned subsidiaries. The entities entered into a tax sharing and funding agreement effective June 2013.

Under the terms of this agreement current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the Head Entity in the tax consolidated group and are recognised as amounts payable/ (receivable) to/(from) other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by the Head Entity and members as an equity contribution or distribution.

The Group recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the Head Entity only.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Nature of tax funding arrangements and tax sharing arrangements

The Head Entity, in conjunction with other members of the tax consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the Head Entity equal to the current tax liability/(asset) assumed by the Head Entity and any tax loss deferred tax asset assumed by the Head Entity, resulting in the Head Entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivables (payables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the Head Entity's obligation to make payments for tax liabilities to the relevant tax authorities. The contribution amount arising under the tax funding arrangement is charged to Keybridge through the inter-company account.

m. Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of Keybridge by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise any share options granted to employees.

n. Segment reporting

Determination and presentation of operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's Executive Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Executive Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly, head office expenses, and income tax assets and liabilities.

The Group comprises the following main operating segments:

- Direct Investment
- Funds Management

o. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership. Leases that do not are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

p. New standards and interpretations not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2016. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below:

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group will adopt this standard from 1 January 2018 but the impact of its adoption is yet to be assessed by the Group.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. For lessee accounting, the standard eliminates the 'operating lease' and 'finance lease' classification required by AASB 117 'Leases'. Subject to exceptions, a 'right-of-use' asset will be capitalised in the consolidated statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in the finance costs). For classification within the consolidated statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) components. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the Group.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standards is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 July 2018. The changes in revenue recognition requirements in AASB 15 are not expected to have a significant impact on the timing and amount of revenue recorded in the financial statements, or result in significant additional disclosures.

4. DETERMINATION 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, including Level 3 fair values, and reports directly to the Managing Director.

Management regularly reviews significant unobservable inputs and valuation adjustments. 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.

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.

Further information about the assumptions made in measuring fair values is included in Note 25 – Financial instruments.

Notes to the Financial Statements

5. CORRECTION OF PRIOR YEAR 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.

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, a \$125,740 understatement of SBP reserve in equity and the ESP interest receivable being overstated by \$22,490.

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 and profit overstated by \$100,991.

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.

Notes to the Financial Statements

5. CORRECTION OF PRIOR YEAR ERRORS (continued)

A total of 531,004 CRPNs were recognised in error as a liability in the year ended 30 June 2015. These CRPNs have been 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 have been cancelled.

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.

	Previously stated as at 30 June 2015 \$'000	Adjustments				Restated as at 30 June 2015 \$'000
		1	2	3	4	
	Interest income \$'000	ESP expense \$'000	CRPN issue \$'000	DRP Dividends paid \$'000		
Statement of comprehensive income as at 30 June 2015						
Interest income (Note 8)	149	(148)	–	–	–	1
Executive share plan (Note 10)	(37)	–	(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)	–	–	0.45
Statement of financial position as at 30 June 2015						
Financial liabilities at fair value through profit or loss (Note 18)	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	–	–	264
Reserve – Profits reserve	534	–	–	–	37	571
Retained earnings/(losses)	(221,528)	(148)	(101)	–	–	(221,777)

Notes to the Financial Statements

6. OPERATING SEGMENTS

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.

As at 30 June 2015, these investments were previously reported as separate segments in the segment reporting but due to change in strategic direction it was decided during the year 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 included the investment in Aurora until it was sold on 30 June 2016. The investment was 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.

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.

Notes to the Financial Statements

6. OPERATING SEGMENTS (continued)

	Segment Profit and Loss			Segment Profit and Loss		
	30 June 2016 \$'000	30 June 2016 \$'000	30 June 2016 \$'000	Restated 30 June 2015 \$'000	30 June 2015 \$'000	Restated 30 June 2015 \$'000
	Direct Investment	Funds Management	Total	Direct Investment	Funds Management	Total
Revenue and income	7,142	—	7,142	4,037	—	4,037
Expenses	(4,051)	—	(4,051)	(2,983)	—	(2,983)
Results from operating activities	3,091	—	3,091	1,054	—	1,054
Finance costs	(312)	—	(312)	(5)	—	(5)
Profit/(Loss) before income tax	2,779	—	2,779	1,049	—	1,049
Income tax benefit/(expense)	—	1,139	1,139	(172)	—	(172)
Profit/(Loss) for the period	2,779	—	2,779	877	—	877
Loss from discontinued operations*	(874)	(4,396) [#]	(5,270)	—	(158)	(158)
Profit/(Loss) for the period	1,905	(4,396)	(2,491)	877	(158)	719

* Refer Note 30 for a detailed breakdown. [#] this includes the loss on sale of Aurora of \$3.331 million.

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

	30 June 2016 \$'000		Restated 30 June 2015 \$'000	
	\$'000	% of Total	\$'000	% of Total
Assets				
Direct Investments	35,008	100.00%	38,907	88.74%
Funds Management	—	0.00%	4,936	11.26%
Total segment assets	35,008	100.00%	43,843	100.00%
Liabilities				
Direct Investments	5,270	100.00%	8,917	81.24%
Funds Management	—	0.00%	2,059	18.76%
Total segment liabilities	5,270	100.00%	10,976	100.00%

7. FEES

	2016 \$'000	Restated 2015 \$'000
Funds management fees*	—	—
Director fees charged to third parties**	101	—
Loan establishment fees	20	296
Other fees	—	50
	121	346

* Fund management fees are charged to funds where Aurora was the responsible entity. Aurora was purchased by Keybridge on 27 March 2015 and subsequently sold on 30 June 2016 – Refer Note 30.

** 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.

The other fees charged represent services provided by Keybridge's Executive Directors in relation to various investments held by the Group.

Notes to the Financial Statements

8. INTEREST INCOME

	2016 \$'000	Restated 2015 \$'000
Interest on bank deposits	21	260
Interest on employee share plan**	—	1
Interest on loans and advances – third parties	970	1,638
	991	1,899

** Due to the recourse nature of the interest to the participants of the ESP, interest income was originally incorrectly recognised in the Statement of Profit or Loss and should have been recognised in the share-based payments (SBP) equity reserve in the Statement of Changes in Equity. As Keybridge did not pursue employees who have left the group, a decision was made in the current year to not accrue interest on the loans at 30 June 2016.

9. OTHER INCOME

(a) Settlement Fees

	2016 \$'000	Restated 2015 \$'000
Settlement Fees*	3,336	—

* Keybridge received \$3.336 million (before legal costs) as a result of three confidential settlements of legal proceedings to which it was not a direct party, but to which it held beneficial interests.

(b) Other income

	2016 \$'000	Restated 2015 \$'000
Distributions from US Based residential trust [#]	83	—
Receipts from investments in Associate	4	—
Litigation claims **	134	—
Other*	164	95
Income on loan write-offs	163	—
	548	95

* Includes Australian Tax Office refund of \$28,000, Non refundable deposit received of \$100,000 and deed of assignment of \$36,000 ** Recovery of legal fees.

10. EMPLOYMENT COSTS

	2016 \$'000	Restated 2015 \$'000
Wages and salaries	901	910
Superannuation	75	95
Other associated personnel expenses	122	47
Executive share plan**	150*	138
	1,248	1,190

*Adjusted for reversal of prior year Employee Share Plan costs of \$15,000 relating to AFML staff on resignation, retrenchment and the sale of AFML.

** 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 which 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. The impact of the error on the comparatives, as relevant, is disclosed in the table in Note 5.5 above. The error resulted in SBP expense for the year ended 30 June 2015 being understated by \$100,991 and profit overstated by \$100,991.

11. LEGAL AND PROFESSIONAL COSTS

	2016 \$'000	Restated 2015 \$'000
Investment-related legal fees	388	366
Investment-related professional fees	116	476
Directors' fees	239	202
Legal expenses in relation to recovering unpaid loans	874	790
Audit and tax fees	221	320
	1,837	2,154

Notes to the Financial Statements

12. INCOME TAX EXPENSE

a. Income tax recognised in profit or loss

	2016 \$'000	2015 \$'000
Current tax benefit/(expense)		
Current period	1,562	4,076
Adjustment for prior periods	(4,417)	1,595
Total current tax	(2,855)	5,671
Deferred tax benefit/(expense)		
Unrealised FX gains and losses	(1,081)	(1,101)
Unrealised gain/(loss) on other investments	669	96
Loans and receivables	(4,305)	86
Other	(126)	115
(Decrease)/increase in deferred income tax expense from timing differences	(4,843)	(804)
(Decrease)/increase in deferred income tax expense from tax losses not recognised	2,855	(5,671)
(Decrease)/increase in deferred income tax expense from timing differences not recognised	4,843	804
Reversal of deferred tax asset – no longer probable	–	–
Tax (expense)/reversal as a result of tax refund	–	(172)
Total income tax benefit / (expense)	–	(172)

b. Reconciliation between tax expense and pre-tax net profit

	2016 %	2016 \$'000	2015 %	2015 \$'000
Profit before income tax		2,779		719
Tax Benefit/ (Tax Expense) using Keybridge's domestic tax rate	30	(834)	30	(267)
Non-assessable income-dividend		–		–
Adjustment for prior periods		–		3,542
Current year losses for which no deferred tax asset was recognised		–		(4,076)
Change in unrecognised temporary differences		–		804
Non-deductible expenses		–		(3)
Tax expense		–		(172)
Prior year losses for which no deferred tax was recognised		834		–
Total income tax benefit / (expense)		–		(172)

Notes to the Financial Statements

13. DEFERRED TAX ASSETS AND LIABILITIES

At 30 June 2016, a deferred tax benefit of \$56,958 million (2015: \$64.655 million) mostly related to prior years impairment expenses now being written-off and recognised as a tax deduction, and temporary differences of \$3,361 million (2015: \$8.203 million) were not recognised as deferred tax assets. The deferred tax assets will only be realised when sufficient future assessable income is earned.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2016 \$'000	Restated 2015 \$'000
Deductible temporary differences	3,361	8,203
Tax losses	53,597	56,452
	56,958	64,655

The deductible temporary differences and tax losses do not expire under current taxation legislation. Deferred tax assets have not been recognised in respect of these items because it is currently not probable that future taxable profits will be available against which the Group can utilise the benefits of these tax losses and deductible temporary differences.

Recognised tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2016 \$'000	2015 \$'000	2016 \$'000	Restated 2015 \$'000	2016 \$'000	Restated 2015 \$'000
Loans and receivables	2,816	7,121	—	—	2,816	7,121
Other investments	368	—	—	(301)	368	(301)
Aurora intangible	—	—	—	—	—	—
Derivatives and unrealised foreign exchange	16	1,097	—	—	16	1,097
Other	161	287	—	—	161	287
Total assets/(liabilities)	3,361	8,505	—	(301)	3,361	8,203
Less: Deferred tax asset not recognised	(3,361)	(8,203)	—	—	(3,361)	(8,203)
Less: Set off of tax	—	(301)	—	(301)	—	—
Net tax assets/(liabilities)	—	—	—	—	—	—

Deferred tax assets have been recognised to the extent that it is probable that taxable temporary differences will be available against which the deductible temporary difference can be utilised. The deferred tax assets and deferred tax liabilities have been offset to the extent that the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

Movement in temporary differences during the year

	Balance at 1 July 2014 \$'000	Recognised in profit or loss \$'000	Balance at 30 June 2015 \$'000	Recognised in profit or loss \$'000	Balance at 30 June 2016 \$'000
Loans and receivables	7,035	86	7,121	(4,305)	2,816
Other investments	(377)	76	(301)	669	368
Derivatives and unrealised foreign exchange	2,198	(1,101)	1,097	(1,081)	16
Other items	172	115	287	(126)	161
Total	9,028	(825)	8,203	(4,843)	3,361

Notes to the Financial Statements

14. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

	2016 \$'000	2015 \$'000
Cash at bank	1,665	2,832
Short term deposits	–	1
	1,665	2,833

(b) Reconciliation of cash flow

	2016 \$'000	Restated 2015 \$'000
Profit/(loss) for the period	(2,491)	719
Depreciation	6	6
Share based payment	150	263
Changes in interest accrued	(509)	(503)
Unrealised (gain)/loss on fair value through profit and loss investments	(639)	320
Dividend received	–	(554)
Realised (gain)/loss on disposal of investments	(576)	183
Foreign exchange (gain)/loss on foreign currency assets	(486)	(1,024)
Impairment expenses	376	(915)
Shares in profit in associates	(361)	–
Loss on discontinued operations	5,270	–
Income tax benefit from disposal of discontinued operations	1,139	–
Net finance costs	–	27
Operating cash flow before changes in working capital and provisions	1,879	(1,478)
(Decrease)/increase in payables	(2,930)	383
(Increase) in other assets	–	–
Decrease/(increase) in trade and other receivables	1,870	(550)
Dividends paid	795	–
Income taxes paid	–	1
Net cash from operating activities	(1,614)	(1,644)

Notes to the Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements \$'000	Office equipment \$'000	Furniture and fittings \$'000	Computer software \$'000	Computer hardware \$'000	Total \$'000
<i>Cost or deemed cost</i>						
Balance 1 July 2014	318	63	151	147	82	761
Additions	—	—	21	—	35	56
Disposals	—	—	—	—	—	—
Balance at 30 June 2015	318	63	172	147	117	817
Balance 1 July 2015	318	63	172	147	117	817
Additions	—	—	5	—	6	11
Disposals	—	—	—	—	(3)	(3)
Sale of discontinued operations*	—	—	(21)	—	(29)	(50)
Balance at 30 June 2016	318	63	157	147	91	776
<i>Depreciation and impairment losses</i>						
Balance 1 July 2014	318	63	151	147	78	757
Depreciation for the year	—	—	1	—	4	5
Disposals	—	—	—	—	—	—
Balance 30 June 2015	318	63	152	147	82	762
Balance 1 July 2015	318	63	152	147	82	762
Depreciation for the year	—	—	1	—	2	3
Disposals	—	—	—	—	—	—
Sale of discontinued operations*	—	—	(1)	—	(2)	(3)
Balance 30 June 2016	318	63	152	147	82	762
<i>Carrying amounts</i>						
At 30 June 2015	—	—	20	—	35	55
At 30 June 2016	—	—	5	—	9	14

* Sale of Aurora Funds Management – Refer Discontinued Operations – Note 30.

16. INTANGIBLE ASSETS AND GOODWILL

	2016 \$'000	Restated 2015 \$'000
Goodwill		
Balance at 1 July	1,139	25
Recognition of goodwill – Refer to Note 29	—	1,139
Impairment of goodwill*	(1,139)	(25)
Balance at 30 June	—	1,139
Carrying amounts 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.		
	2016 \$'000	Restated 2015 \$'000
Intangibles		
Balance at 1 July	3,797	—
Recognition of intangible – Refer to Note 29	—	3,797
Impairment of Aurora intangible	(1,545)	—
Write-off from disposal of entity^	(2,252)	—
Balance at 30 June	—	3,797
Carrying amount at end of period	—	3,797

^ Sale of Aurora on 30 June 2016.

Notes to the Financial Statements

16. INTANGIBLE ASSETS AND GOODWILL (continued)

	2016 \$'000	Restated 2015 \$'000
Impairment expenses		
Impairment of goodwill*	1,139	—
Impairment of intangible**	1,545	—
Less: Reduction of deferred consideration***	(800)	—
Total impairment of goodwill and intangibles*	1,884	—

* The Aurora assets were tested for impairment as at 31 December 2015 and it was determined that as a result of the decline in FUM, the intangible and goodwill were to be impaired. This is reflected in the loss from discontinued operation – Refer Note 30.

**No test of impairment was carried out prior to the sale of Aurora at 30 June 2016. As the investment in Aurora was sold, (Note 30) a write off of the remaining intangible balance of \$2.252 million was made.

*** A deferred consideration liability relating to the purchase of Aurora in March 2015 was reversed at 31 December 2015 as part of the revaluation of Aurora as the FUM was less than \$120 million at 27 March 2016 and was not paid. Refer to Note 29.

17. LOANS AND RECEIVABLES

(a) Loans and receivables

	2016 \$'000	2015 \$'000
	Carrying amounts	
Individually impaired loans (gross)	15,703	30,176
Less: Allowance for impairment	(9,386)	(23,736)
Carrying amount	6,317	6,440
Loans not individually impaired	10,905	11,925
Carrying amount	10,905	11,925
Total carrying amount of Loans and Receivables	17,222	18,365
Current assets		
Infrastructure	493	400
Property	—	1,104
Insurance	281	250
	774	1,754
Non-current assets		
Infrastructure	11,908	12,122
Private Equity	6,740	6,529
Property	4,188	4,459
Insurance	2,998	2,886
Lending (including Shipping)	—	14,351
Less: Allowance for impairment expenses	(9,386)	(23,736)
	16,448	16,611

(b) Impairment expenses and carrying value adjustments

	2016 \$'000	2015 \$'000
	Impairment provisions	
Income statement charge		
Loan impairment expenses		
Reversal of allowances no longer required	—	(1,627)
Impairment expenses	376	712
Total recognised in income statement	376	(915)

Notes to the Financial Statements

18. FINANCIAL ASSETS AND LIABILITIES

a) Financial assets at fair value through profit or loss

	2016 \$'000	2015 \$'000
Shares in ASX-long position	13,095	13,953
Shares in NYSE-long position	–	553
Shares in SGX-long position	–	913
Shares in FTSE-long position	–	14
	13,095	15,433

b) Financial liabilities at fair value through profit or loss

	2016 \$'000	2015 \$'000
Shares in ASX-short position	–	553
Shares in NYSE-short position	–	537
FX Futures	17	–
	17	1,090

The net gain from investment during the year was \$1.017 million (2015: \$113,000 loss).

c) Financial liabilities at fair value through profit or loss – Convertible Redeemable Promissory Notes

	2016 \$'000	Restated 2015 \$'000
Balance at beginning of period	4,426	–
Issue of Convertible Redeemable Promissory Notes (CRPN)**	–	4,426
On-market CRPN buy-back	(25)	–
Unrealised gain on revaluation at 30 June*	(198)	–
	4,203	4,426

* At 30 June 2016, a mark-to-market revaluation was completed.

** Restated – refer Note 5.

Keybridge Convertible Redeemable Promissory Notes (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/ dividend 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.

A mark-to-market revaluation was completed at year end. The adjustment at 30 June 2016 was \$198,000 (2015: Nil).

Notes to the Financial Statements

19. EQUITY-ACCOUNTED INVESTEEES

(i) 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 through 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 30 June 2016, Keybridge held a 21.62% investment (due to the on market buy-back by HHY Fund).

	30 June 2016 \$'000	30 June 2015 \$'000
Investment in associates		
Carrying amount of interests in associates	2,662	–
Opening balance	2,301*	–
Keybridge's share of:		
Profit from continuing operations	361	–
Distributions	–	–
Other comprehensive income	–	–
Total comprehensive income	361	–
Closing balance	2,662	–
Summarised financial information of HHY Fund**		
Current assets	12,363	–
Non-current assets	–	–
Current liabilities	50	–
Non-current liabilities	–	–
Net assets	12,313	–
Revenue	2,221	–
Profit from continuing operations before tax	1,768	–
Total comprehensive income after tax	1,768	–

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

** Summarised financial information of HHY Fund represent the 100% of the Fund's financial information.

Reconciliation of the above summarised financial information to the carrying amount of the interest in HHY Fund recognised in the consolidated financial statements:

	30 June 2016 \$'000	30 June 2015 \$'000
Net asset of the associates	12,313	–
Proportion of the Group's interest in HHY Fund	21.62%	–
Carrying amount of interests in associates	2,662	–

Notes to the Financial Statements

(ii) Immaterial Joint Venture

The Group has an interests in an immaterial Joint Venture. The Group owns 50% of the equity interests; however the Group has determined that it does not have significant influence because operating decisions are jointly made.

The following table analyses, in aggregate, the carrying amount and share of profit and Other Comprehensive Income of these associates.

	30 June 2016 \$'000	30 June 2015 \$'000
Carrying amount of interests in Joint Venture	–	–
Share of:		
Profit/(loss) from continuing operations	83	68
Other comprehensive income	–	–
Total comprehensive income	83	68

The Group has not recognised profits totalling \$83,000 (2015: \$68,000) in relation to its interest in associates, because the Group's investment in Joint Venture was reduced to nil in the the financial year ended 30 June 2009.

20. PAYABLES

	2016 \$'000	2015 \$'000
Employment-related expenditure	109	163
Professional fees payable	469	951
Director fees payable	36	51
Contingent consideration*	–	800
Trade creditors	436	1,336
	1,050	3,301

* A deferred consideration liability relating to the purchase of Aurora in March 2015 was reversed at 31 December 2015 as part of the revaluation of Aurora as the FUM was less than \$120 million at 27 March 2016 and was not paid. Refer to Note 29.

21. BORROWINGS

	2016 \$'000	2015 \$'000
Subordinate debt – HSI No. 1 (includes interest payable)	–	1,020

AFML entered into a subordinate debt agreement with HSI No. 1 Pty Ltd atf HSI Noteholders Trust on 23 December 2010 with total borrowing amount of \$1 million over five years. The repayment is subordinated to all creditors as approved by the Australian Securities and Investments Commission. Interest is payable quarterly in arrears at a floating rate of RBA cash rate plus 6%. The total interest expensed between 1 April 2015 to 30 June 2015 was \$21,150 of which \$21,150 was payable at 30 June 2015. The loan and interest payable was repaid during the first half of the 2016 financial year.

Notes to the Financial Statements

22. CONTRIBUTED EQUITY

(a) Issued and paid-up capital

	2016 \$'000	Restated* 2015 \$'000
158,812,327 (30 June 2015: 159,354,286) ordinary shares fully paid	253,717	253,809

* Refer Note 5.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of Keybridge in proportion to the number of, and amounts paid on, the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

Keybridge does not have par value in respect of its issued shares.

(b) Movement in ordinary share capital

	2016 \$'000	2016 \$'000	2015 \$'000	2015 \$'000
Opening balance 1 July	159,354	253,809	158,694	258,118
Capital return via Convertible Redeemable Preference Notes	—	—	—	(4,957)
Dividend Reinvestment Plan	—	—	984	225
Placement	—	—	2,597	500
Acquisition and cancellation of Keybridge's shares via on-market buy-back	(542)	(92)	(2,921)	(571)
Restatement – refer note 5	—	—	—	494
Closing balance 30 June	158,812	253,717	159,354	253,809

(c) Nature and purpose of reserves

Profits reserve

The profits reserve comprises the transfer of net profit for the year and characterises profits available for distribution as dividends in future years. Dividends amounting to \$ 795,065 (2015: \$ 434,009) were distributed from the profits reserve during the year.

Share-based payment reserve

The share-based payment reserve comprises the portion of the fair value of the ESP options recognised as an expense. Share-based payment expense amounting to \$ 23,077 (Restated 2015: \$263,794 refer Note 5) was recognised during the year.

Shares issued but not quoted

As at 30 June 2016, there are 15,000,000 (2015: 19,116,231) issued shares, which relate to the Keybridge Capital Executive Share Plan. The shares will be released to the relevant participants pursuant to specific vesting and service conditions including the repayment of the loan, any interest and any release fees.

	2016 \$'000	2015 \$'000
Opening balance 1 July	19,116	5,975
Issued Executive Share Plan 19 December 2014	—	15,000
Cancel previous share plan shares 24 December 2014 [#]	—	(5,975)
Dividend Reinvestment Plan shares issued 31 March 2015*	—	196
Issued Executive Share Plan 28 April 2015	—	3,920
Reversal of Dividend Reinvestment shares issued 31 March 2015*	(196)	—
Cancelled Executive Share Plan**	(3,920)	—
Closing balance 30 June	15,000	19,116

* 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.

** Cancelled due to resignations, redundancies and the sle of AFML.

[#] 5,975,000 shares issued (but not quoted) relating to the Group's redundant Director and Employee Share Scheme. These have since been removed from the ASX and subsequently cancelled during the 2015 financial year.

Notes to the Financial Statements

23. DIVIDENDS

In respect of the financial year ended 30 June 2016, due to the Company making a loss during the second half year of the year, the Directors have determined not to pay a final dividend. An interim dividend of 0.25 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 15 April 2016.

In respect of the financial year ended 30 June 2015, as detailed in the directors' report for that financial year, a final dividend of 0.25 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 1 October 2015.

On 21 September 2016, the Company made a CRPN payment of \$0.08 million. The Company will be paying the dividends for the Keybridge CRPNs, which are next due in December 2016.

	2016 \$'000	2015 \$'000
Amount of franking credits available to shareholders of Keybridge for subsequent financial years	7,983	8,139

24. EARNINGS PER SHARE

(a) Basic and diluted profit/(loss) per share – from continuing operations

The calculation of basic and diluted profit/(loss) per share at 30 June 2016 was based on the profit attributable to ordinary shareholders of \$3.918 million (2015: profit \$0.851 million) and a weighted average number of ordinary shares outstanding of 158,941,407 (2015: 159,369,909) calculated as follows:

Earnings per share from continuing operations	2016 \$'000	Restated 2015 \$'000
Profit attributable to ordinary shareholders		
Net profit attributable to ordinary shareholders	2,779	877
Non-controlling interest	-	-
Profit after income tax attributable to the owners of Keybridge Capital Limited	2,779	877
	No. '000	No. '000
Weighted average number of ordinary shares*		
Weighted average number of ordinary shares for the year to 30 June	158,941	159,370
	2016 cents	Restated 2015 cents
Basic earnings per share – cents	1.75	0.55
Diluted earnings per share – cents	1.75	0.55

* Does not include 15.00 million (2015: 19.12 million) employee share plan shares not quoted. The shares will be released to the relevant participants pursuant to specific vesting and service conditions including the repayment of the loan, any interest and any release fees.

As at 30 June 2016 4,401,000 convertible redeemable promissory notes were excluded from the diluted weighted-average number of ordinary shares calculation (Restated 2015: 4,426,000 refer Note 5).

As at 30 June 2016 15.00 million employee share options were excluded from the diluted weighted-average number of ordinary shares calculation (2015: 19.12 million) as shares are anti diluting.

Notes to the Financial Statements

24. EARNINGS PER SHARE (continued)

(b) Basic and diluted profit/(loss) per share – from discontinued operations

Earnings per share from discontinued operations		
	2016 \$'000	Restated 2015 \$'000
(Loss)/Profit attributable to ordinary shareholders		
Net (loss)/profit attributable to ordinary shareholders	(5,270)	(158)
Non-controlling interest	226	-
(Loss)/Profit after income tax attributable to the owners of Keybridge Capital Limited	(5,044)	
	No. '000	No. '000
Weighted average number of ordinary shares*		
Weighted average number of ordinary shares for the year to 30 June	158,941	159,370
	2016 cents	Restated 2015 cents
Basic earnings per share – cents	(3.17)	(0.10)
Diluted earnings per share – cents	(3.17)	(0.10)

* Does not include 15.00 million (2015: 19.12 million) employee share plan shares not quoted. The shares will be released to the relevant participants pursuant to specific vesting and service conditions including the repayment of the loan, any interest and any release fees.

As at 30 June 2016 4,401,000 convertible redeemable promissory notes were excluded from the diluted weighted-average number of ordinary shares calculation (Restated 2015: 4,426,000 refer Note 5).

As at 30 June 2016 15.00 million employee share options were excluded from the diluted weighted-average number of ordinary shares calculation (2015: 19.12 million) as shares are anti diluting.

(c) Basic and diluted profit/(loss) per share – from (loss)/ profit for the period

Earnings per share from (loss)/ profit for the period		
	2016 \$'000	Restated 2015 \$'000
(Loss)/Profit attributable to ordinary shareholders		
Net (loss)/profit attributable to ordinary shareholders	(2,491)	719
Non-controlling interest	226	-
(Loss)/Profit after income tax attributable to the owners of Keybridge Capital Limited	(2,265)	
	No. '000	No. '000
Weighted average number of ordinary shares*		
Weighted average number of ordinary shares for the year to 30 June	158,941	159,370
Basic earnings per share – cents	(1.42)	0.45
Diluted earnings per share – cents	(1.42)	0.45

* Does not include 15.00 million (2015: 19.12 million) employee share plan shares not quoted. The shares will be released to the relevant participants pursuant to specific vesting and service conditions including the repayment of the loan, any interest and any release fees.

As at 30 June 2016 4,401,000 convertible redeemable promissory notes were excluded from the diluted weighted-average number of ordinary shares calculation (Restated 2015: 4,426,000 refer Note 5).

As at 30 June 2016 15.00 million employee share options were excluded from the diluted weighted-average number of ordinary shares calculation (2015: 19.12 million) as shares are anti diluting.

Notes to the Financial Statements

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. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

In thousands of dollars	Carrying amount						Fair value			
	Non-current assets			Current assets						
	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
30 June 2016										
Financial assets measured at fair value										
Equity securities	–	–	–	13,095	–	13,095	13,095	–	–	13,095
Financial assets not measured at fair value										
Loans and receivables	16,448	–	1,124**	–	–	17,572	–	–	16,974	16,974*
Cash	–	–	–	–	1,665	1,665	–	–	–	–
	16,448	–	1,124	13,095	1,665	32,332	13,095	–	16,974	30,069
30 June 2015										
Financial assets measured at fair value										
Equity securities	–	–	–	15,433	–	15,433	15,433	–	–	15,433
Equity Options	–	–	–	39	–	39	39	–	–	39*
Financial assets not measured at fair value										
Loans and receivables	16,738	–	3,808**	–	–	20,546	–	–	18,319	18,319*
Cash	–	–	–	–	2,833	2,833	–	–	–	–
	16,738	–	3,808	15,472	2,833	38,851	15,846	–	18,319	34,165

* The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables because their carrying amounts are a reasonable approximation of fair values.

**Includes trade and other receivables of \$350,000 (2015: \$1.680 million)

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS (continued)

In thousands of dollars	Carrying amount				Fair value				
	Non-current liabilities		Current liabilities						
	Held for trading	Designated at fair value	Loans and borrowings	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
30 June 2016									
Financial liabilities measured at fair value									
Equity Securities	17	—	—	—	17	17	—	—	17
Contingent consideration	—	—	—	—	—	—	—	—	—
Convertible redeemable promissory notes	—	4,203	—	—	4,203	4,203	—	—	4,203
Financial liabilities not measured at fair value									
Trade and other payables**	—	—	436	—	436	—	—	—	—
Borrowings*	—	—	—	—	—	—	—	—	—
	17	4,203	436	—	4,673	4,220	—	—	4,220
30 June 2015									
Financial liabilities measured at fair value									
Equity Securities	1,090	—	—	—	1,090	1,090	—	—	1,090
Contingent consideration	—	—	—	800	800	—	—	800	800
Convertible redeemable promissory notes	—	4,426	—	—	4,426	4,426	—	—	4,426
Financial liabilities not measured at fair value									
Trade and other payables**	—	—	1,366	—	1,366	—	—	—	—
Borrowings*	—	—	1,020	—	1,020	—	—	—	—
	1,090	4,426	2,386	800	8,720	5,516	—	800	6,316

* The Group has not disclosed the fair values for financial instruments such as short term trade receivables and payables because their carrying amounts are at reasonable approximations of fair values.

**Other payables that are not financial liabilities such as accrued expenses are not included.

Notes to the Financial Statements

25. FINANCIAL INSTRUMENTS *(continued)*

Fair values versus carrying amounts

For Loans and Receivables, the fair value is determined using an estimate of interest rates that may apply if these assets were refinanced as at 30 June 2016 and using the estimated cash flows as at balance date.

Fair value hierarchy

The following table analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

In order to determine the fair value of such derivatives, management used a valuation technique in which all significant inputs were based on observable market data or broker quotes for underlying assets.

The difference between the carrying amount and the fair value of the Loans and Receivables is as a result of discounting the estimated future cash flows of the loan and receivable using prevailing market rates i.e. if the Group were to provide new loans and advances or acquire new borrowing facilities as at 30 June 2016 instead of the original effective interest rate.

26. FINANCIAL RISK MANAGEMENT

The Group seeks to minimise the effects of financial risks arising in the normal course of the Group's business. The markets in which the Group has invested, on the whole, excluding Aurora performed in line with expectations for the financial year.

Financial risk management is undertaken by management under policies approved by the Board. During the twelve months to 30 June 2016 management continued to monitor the Group's policies and sought Board approval for any necessary changes to actively manage the financial health of the Group. The policies are available on Keybridge's website at www.keybridge.com.au.

The Board is responsible for overseeing the implementation of, and ensuring there are adequate policies in relation to the Group's risk management, compliance and control systems. These systems require management to be responsible for identifying and managing the Group's risks.

The Board has established an Audit, Finance and Risk Committee (AFRC). The AFRC's responsibilities include assisting the Board to achieve the Board's oversight requirements in relation to financial risk management, internal control and risk management. The AFRC meets quarterly and reports to the Board on its activities.

Notes to the Financial Statements

26. FINANCIAL RISK MANAGEMENT (continued)

Keybridge's principal financial assets comprise cash and cash equivalents, trade and other receivables, loans and receivables and investments in listed equities. Keybridge's principal financial liabilities comprise Convertible Redeemable Promissory Notes, borrowings and trade and other payables. The main purpose of these liabilities is to finance Keybridge's operations.

Keybridge's activities expose it to a variety of direct and indirect financial risks comprising market risk, interest rate risk, credit risk, liquidity risk and fair values.

The Board has established an Investment Committee (IC) whose members comprise Andrew Moffat (until his resignation on 29 July 2016), Nicholas Bolton (until his resignation on 17 December 2015) and Antony Sormann. Without a formal committee in place all decisions are made by the board as a whole. All investment decisions are based on levels of delegation as follows:

- Approval of investments of capital of up to \$1 million is delegated to Keybridge management.
- Approval of investments of capital greater than \$1 million with a cap of \$5 million is delegated to the IC.
- Approval of investments or divestments of capital greater than \$5 million requires Board approval.

Impairment losses

Impairment losses for the twelve months to June 2016 have occurred in the Lending asset class and for intangible and goodwill assets.

The Group has recognised a net impairment expense of \$0.38 million in the current financial year (2015: Net impairment reversals of \$0.915 million).

This includes an additional provision for \$0.271 million was recognised during the year and relates to a property loan to an entity that has ceased to make interest repayments and was revalued by an external party.

For the loans that are not impaired, credit risk is managed by analysing the counterparties' monthly financial reports and regular dialogue is held to discuss any issues that may impact the ability of the counterparty to repay its loan.

The ageing of the Loans and Receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
	2016	2016	2015	2015
	\$'000	\$'000	\$'000	\$'000
Not past due	22,420	(6,082)	23,361	(6,152)
Past due 91–120	—	—	—	—
Past due 121–365	—	—	—	—
More than one year	4,189*	(3,304)*	18,740	(17,584)
	26,609	(9,386)	42,101	(23,736)

*The Loan is secured by a property that was valued by an external valuer at \$885,000.

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

	Loans and receivables	
	2016	2015
	\$'000	\$'000
Balance at 1 July	23,736	23,448
Impairment loss recognised	—	712
Impairment write-back in income statement	—	(1,627)
Foreign exchange movement on impairments	—	2,604
Loans (written off)	(14,350)	(1,401)
Balance at 30 June	9,386	23,736

The allocation of impairments by segment is provided in Note 6 – Operating Segments.

For the loans that are not impaired, credit risk is managed by analysing the counterparties' monthly financial reports and regular dialogue is held to discuss any issues that may impact the ability of the counterparty to repay its loan.

Notes to the Financial Statements

26. FINANCIAL RISK MANAGEMENT *(continued)*

Exposure to credit risk

The Group is exposed to credit risk in the event that a counterparty fails to meet its contractual obligations in relation to the Group's investments or deposits with banks and other financial institutions.

The Group manages ongoing credit risk by monitoring closely the performance of investments, the cyclical impact of the underlying asset class, and financial health of counterparties, banks and other financial institutions.

Trade receivables

The maximum exposure to credit risk is the carrying amount of assets, net of any provision for doubtful debts of those assets, as disclosed in the consolidated statement of financial position and notes to the financial statements.

The Group does not have any material credit risk exposure to any single debtor.

Cash deposits

Credit risk for cash deposits is managed by holding all cash with major Australian banks (Westpac, ANZ and Commonwealth Bank).

The carrying amount of the Group's financial assets represents its maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

		Carrying amount	
	Note	2016 \$'000	2015 \$'000
Cash and cash equivalents	14(a)	1,665	2,833
Loans and Receivables	17	17,222	18,365
Financial assets at fair value through profit or loss (asset)	18	13,095	15,433
Investment in associate	19	2,662	–
Trade and other receivables		350	1,807
Other assets		–	413
		34,994	38,851

The Group's maximum exposure to credit and market risk at the reporting date by segment was:

		Carrying amount	
	Note	2016 \$'000	Restated 2015 \$'000
Cash (Australian banks) – Credit Risk	14(a)	1,665	2,833
Trade and other receivables – Credit Risk		350	1,807
Other assets		–	413
Listed Equity - Market Risk		13,095	15,433
Investment in associate - Market Risk		2,662	–
Infrastructure - Credit Risk		12,400	12,522
Private Equity - Credit Risk		6,740	6,529
Property - Credit Risk		4,189	5,563
Insurance - Credit Risk		3,279	3,136
Impairment		(9,386)	(9,385)
		34,994	38,851

The Group's most significant counterparty exposure relates to investments in listed entities which represent \$13.095 million of Keybridge's investments at 30 June 2016 (2015: \$15.433 million).

In Listed Equity, at 30 June 2016, the Group has equity investments in ten separate securities. These investments are traded on two stock exchanges.

The Infrastructure exposure relates to the tariff payment arrangements issued by the Spanish government. These rates have changed significantly over the last 7 years and going forward there may be further changes made to these payments.

Notes to the Financial Statements

26. FINANCIAL RISK MANAGEMENT (continued)

In Private Equity, Keybridge has a limited recourse loan, which is secured by units in a private equity fund which invests in US-domiciled manufacturing industries. There is no senior debt in the private equity fund, however investments made by the fund may have senior debt at the investment level, and as such, the investment in the private equity fund is indirectly impacted by changes in credit markets that affect investments undertaken by the fund.

Keybridge has one property-backed investment. In September 2014, Keybridge took direct control of the last two loans that were held in a fund managed by Ashe Morgan, who invested in first ranking mortgage loans over commercial properties. The loans were secured by a property in the Melbourne suburb of Prahran and a property in the Sydney suburb of Manly. During the year the Melbourne property was sold and repaid in October 2015.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. At 30 June 2016 the Group has no secured bank loans.

The Group manages liquidity risk via:

- monitoring forecast and actual cash flows, including asset sales and cash investment income;
- maintaining a minimum cash balance; and
- regular reporting of cash flow forecasts for the next 12 to 18 months to the Board and AFRC.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability to meet obligations when due and to close out market positions.

Management monitors rolling forecasts of the Group's liquidity reserve of cash and cash equivalents on the basis of expected cash flows. This is generally carried out at local level in the operating companies of Keybridge in accordance with practice and limits set by Keybridge. In addition, Keybridge's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet any prospective commitments, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

At 30 June 2016, the Group's financial liabilities maturity profile for the past two financial year ends are as follows:

	Carrying amount \$'000	Contractual cash flows \$'000	6 mths or less \$'000	6–12 mths \$'000	1–2 years \$'000	2–5 years \$'000
30 June 2016						
Financial liabilities						
Trade and other payables	(1,050)	(1,050)	(1,050)	–	–	–
Borrowings	–	–	–	–	–	–
Financial liabilities at fair value through profit or loss	(17)	(17)	(17)	–	–	–
	(1,067)	(1,067)	(1,067)	–	–	–
Convertible redeemable promissory notes	(4,203)	(5,967)*	(154)	(154)	(616)	(5,351)**
	(5,270)	(7,034)	(1,221)	(154)	(616)	(5,351)

*Principal plus interest payments.

**Principal plus interest until settlement date – 31 July 2020.

Notes to the Financial Statements

26. FINANCIAL RISK MANAGEMENT (continued)

	Carrying amount \$'000	Contractual cash flows \$'000	6 mths or less \$'000	6–12 mths \$'000	1–2 years \$'000	2–5 years \$'000
30 June 2015						
Financial liabilities						
Trade and other payables	(3,301)	(3,301)	(3,301)	–	–	–
Borrowings	(1,020)	(1,020)	(1,020)	–	–	–
Financial liabilities at fair value through profit or loss	(1,090)	(1,090)	(1,090)	–	–	–
	(5,411)	(5,411)	(5,411)	–	–	–
Convertible redeemable promissory notes	(4,426)	(6,311)	(155)	(155)	(620)	(5,381)
	(9,837)	(11,722)	(5,566)	(155)	(620)	(5,381)

Market risk

Market risk is the risk that changes in market prices, such as interest rates, equities, property prices will affect the Group's profitability. The objective of market risk management is to seek to manage and control risk exposures within acceptable parameters, while optimising expected returns.

The Group is exposed to equity risk on shares in ASX-listed and SGX-listed companies to the extent of \$13.095 million (2015:\$15.433 million). The Group is exposed to equity risk and foreign exchange on short position to the extent of \$17,000 (2015: \$1.090 million). The Group currently does not hold any interest rate swaps.

Foreign currency risk

Foreign currency risk arises from assets and liabilities that are denominated in a currency that is not the Group's functional currency of Australian Dollars. The Group's exposure to foreign exchange risk has been reduced by purchase of foreign currency hedges. There remains one significant investment denominated in US Dollars, one denominated in Euros, one denominated in New Zealand Dollars and a small investment denominated in Singapore Dollars.

The Group does not fully hedge on its foreign denominated investments and therefore is exposed to translation back to Australian Dollars. Any loss or gain arising on translation is recorded in the profit or loss statement.

The Group's exposure to foreign currency risk at balance date was as follows:

	30 June 2016				30 June 2015			
	USD \$'000	Euro \$'000	SGD \$'000	NZD \$'000	USD \$'000	Euro \$'000	SGD \$'000	NZD \$'000
AUD equivalents								
Cash and cash equivalent	139	372	–	5	81	91	–	4
Net financial instrument at fair value through profit or loss	–	–	–	–	896	–	900	–
Loans and Receivables	6,740	6,318	–	3,279	6,529	6,757	–	3,132
Total asset exposure	6,879	6,690	–	3,284	7,506	6,848	900	3,136
FX futures and borrowings	(17)	–	–	–	(3,748)	(1,281)	(832)	(2,256)
Broker accounts	(41)	(1,411)	81	–	–	–	–	–
Net financial instrument at fair value through profit or loss	–	–	–	–	(538)	–	–	–
Net exposure at carrying value	6,821	5,279	81	3,284	3,220	5,567	68	880

Notes to the Financial Statements

26. FINANCIAL RISK MANAGEMENT (continued)

Exposure to currency risk

Sensitivity analysis

The Group is exposed to the translation impact back to Australian Dollars in relation to the US, Euro, New Zealand and Singapore-denominated investments.

As shown in the table below, if the Australian Dollar were to decrease or increase in value by 10%, against the US Dollar, Euro, New Zealand Dollar and Singapore Dollar, the Group would recognise a non-cash profit of \$1.546 million, a loss of \$1,546 million respectively. (2015: a non-cash profit of \$0.974 million, a loss of \$0.974 million respectively).

\$'000 AUD	Profit or loss	
	10% increase	10% decrease
30 June 2016		
USD	(682)	682
Euro	(528)	528
NZD	(328)	328
SGD	(8)	8
	(1,546)	1,546
30 June 2015		
USD	(322)	322
Euro	(557)	557
NZD	(88)	88
SGD	(7)	7
	(974)	974

Interest rate risk

The Group is exposed to interest rate risk where committed debt facilities, including non-recourse debt financing and cash, are at a variable rate of interest. All of the Group's Loans and Receivables are at fixed rates and asset-specific debt is term matched with fixed interest rates to hedge those specific cash flows.

The Group's policy is to ensure that, where appropriate, all material interest rates in relation to non-recourse financing within an investment are fixed for the term of the non-recourse financing.

Interest rate profile

At reporting dates the Group's assets and liabilities subject to variable interest rates are as follows:

	Carrying amount	
	2016 \$'000	2015 \$'000
Variable rate instruments		
Cash-on-hand	1,665	2,833
Loans and Receivable	—*	2,401
Borrowings	—	(1,020)
Total variable rate instruments	1,665	4,214

*Interest is no longer accrued on the Australian property loan.

The Group is entitled to receive a fixed rate of interest in relation to all of the Group's financial assets. Interest income at fixed rates is received as cash or, where there is a reasonable probability of receipt, as accrued income and recognised in the profit and loss statements.

Fair value sensitivity analysis for fixed rate instruments

The Group does account for fixed rate financial assets and liabilities (including the CRPN's (ASX Code: KBCPA)) at fair value through profit or loss and the Group does not hold derivative liabilities (interest rate swaps).

Notes to the Financial Statements

26. FINANCIAL RISK MANAGEMENT (continued)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates throughout the reporting period would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates remain constant. The analysis is performed on the same basis for 2015. As at 30 June 2016 the Group is exposed to cash-on-hand deposit interest rates and variable interest rates on its borrowings. Cash flow sensitivity analysis for variable rate instruments are as follows:

	Profit or loss		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
	\$'000	\$'000	\$'000	\$'000
30 June 2016				
Variable rate instruments	17	(17)	—	—
Cash flow sensitivity (net)	17	(17)	—	—
30 June 2015				
Variable rate instruments	42	(42)	—	—
Cash flow sensitivity (net)	42	(42)	—	—

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group's total capital at 30 June 2016 was \$29.738 million (2015 restated \$32.867 million) comprising contributed equity (net of retained losses).

During the previous year the Group returned \$4.426 million of capital to shareholders via the issue of CRPN. The CRPN provide the Group an alternative method to raise capital, if required, in the future.

Keybridge continued with its on-market buy-back program in which it would seek to purchase up to 16.215 million shares and 0.496 million CRPN's over the course of the program. In accordance with ASX Listing Rules, the price paid for shares under the buy-back is no more than 5% above the volume weighted average price of Keybridge shares over the five prior trading days.

The buy-back mechanism provides improved market liquidity for shareholders wishing to exit in the future. It also assists in improving the correlation of Keybridge's share price to its underlying performance.

The total number of shares purchased by Keybridge under the buy-back depends on market conditions and volumes. During the 2016 financial year 0.542 million shares (2015: 2.921 million shares) have been purchased at an average price of 16.93 cents (2015: 19.65 cents) per share.

The total number of CRPN's purchased by Keybridge under the buy-back depends on market conditions and volumes. During the 2016 financial year 24,885 CRPN's (2015: Nil) have been purchased at an average price of 99.1 cents (2015: Nil) per CRPN.

27. SHARE-BASED PAYMENT ARRANGEMENTS

Employee share scheme

A. Description of share-based payment arrangements

At 30 June 2016, the Group had the following share-based payment arrangements.

Share option programs (equity-settled)

On 28 November 2014, shareholders approved a new Executive Share Plan (ESP). For accounting purposes, under AASB rules, the loans are accounted for as options.

Notes to the Financial Statements

27. SHARE-BASED PAYMENT ARRANGEMENTS (continued)

The ESP involves Keybridge providing interest-bearing limited-recourse loans to eligible employees to purchase ordinary shares in the capital of Keybridge which to date have been issued in two tranches. There are two separate loan arrangements for the two tranches and, as part of both loan arrangements, Keybridge has taken security over those ordinary shares, and are held in escrow to secure repayment of the relevant loans. The interest rate of the loans is a fixed rate of 6.45% per annum for the term of the loans, capitalised monthly to the loans, with the term of the loans being 3 years and 3 months.

Upon acquisition of Aurora, their employees were offered to participate in the ESP on similar loan terms. All ESP shares issued to Aurora employees were cancelled during the year due to redundancies, resignations and the sale of Aurora on 30 June 2016. At 30 June 2016 all loans, interest and associated shares were cancelled.

The share price on grant date for Keybridge employees was 18.65 cents per share and Aurora employees was 19.90 cents per share.

The exercise price on Tranche 1 for Keybridge employees was 23.0 cents and for Aurora employees was 24.4 cents, additionally, for the second tranche of shares to Keybridge employees only, there is an additional release payment payable at the end of the term of the loans by the relevant participating employees of 11.5 cents per share. None of the loans may be repaid early, unless otherwise agreed between the relevant employee and Keybridge. The loans for the two tranches are not cross-collateralised.

Both tranches of shares are subject to a holding lock under escrow arrangements, such that they are not capable of being sold for a period of three years from their date of issue.

In any event, the shares may only be released to the relevant employees if certain vesting and service conditions are met, including Keybridge's share price reaching levels equivalent to a defined strike price and the relevant employees paying a top up amount being equal to the difference between the issue price and the vesting price. As the limited-recourse loan is used only with newly issued shares, rather than with shares bought on market, shareholders are not exposed to any cash loss risk arising from the limited-recourse loan.

The key terms and conditions related to the grants under these programs are as follows; all shares are to be released from escrow upon repayment of the loans outstanding:

Grant date/employees entitlement	Number of instruments in thousands	Vesting conditions	Contractual life of loan
Shares granted to key management personnel			
On 19 December 2014	15,000	3 years' service from grant date and loan repayment (including accrued interest to be paid)	3 years
On 28 April 2015*	3,500	3.3 years' service from grant date and loan repayment (including accrued interest to be paid)	3.3 years
Shares granted to senior employees*			
On 28 April 2015	420	3.3 years' service from grant date and loan repayment (including accrued interest to be paid)	3.3 years
Total shares	18,920		

* At 30 June 2016 3,920,000 shares granted were cancelled after resignations, redundancies and the sale of Aurora.

Notes to the Financial Statements

27. SHARE-BASED PAYMENT ARRANGEMENTS (continued)

B. Measurement of fair values

Equity-settled share-based payment arrangements

The fair value of the employee share options below has been measured using the Black-Scholes formula. Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value.

The requirement that the employee has to pay interest and repay the loan in order to receive shares under the share purchase plan has been incorporated into the fair value at grant date by applying a discount to the valuation obtained.

The inputs used in the measurement of the fair values at grant date of the equity-settled share-based payment plans were as follows:

	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%

* As reflected in the table above, 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.

Expected volatility has been based on an evaluation of Keybridge's share price, particularly over the historical period commensurate with the expected term. The expected term of the instruments has been based on historical experience and general option holder behaviour.

Reconciliation of outstanding share options

The number and weighted-average exercise prices of share options under the share option programs below were as follows.

	Number of options '000	Weighted-average exercise price	Number of options '000	Weighted-average exercise price
	2016	2016	2015	2015
Outstanding at 1 July	19,116	0.263	—	—
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	—	—
Granted during the year [^]	—	—	15,000	0.268
Granted during the year ^{^^}	—	—	3,920	0.244
Cancelled Executive Share Plan*	(3,920)	0.244	—	—
Dividends reinvested**	(196)	0.191	196	0.191
Outstanding at 30 June	15,000	0.268	19,116	0.263
Exercisable at 30 June	—	—	—	—

*At 30 June 2016 all shares granted to senior employees were cancelled after resignations, redundancies and the sale of Aurora.

** 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 were cancelled.

[^] Granted to Keybridge direct employees on 19 December 2014. ^{^^} Granted to Aurora employees on 28 April 2015.

Notes to the Financial Statements

27. SHARE-BASED PAYMENT ARRANGEMENTS (continued)

The share options outstanding at 30 June 2016 had an exercise price in the range of 23 cents to 34.5 cents (2015: 23 cents to 34.5 cents) and a weighted-average contractual life of 3.3 years (2015: 3.3 years).

C. Expense recognised in profit or loss

For details on the related employee benefit expenses, see Note 10.

28. RELATED PARTY DISCLOSURE

Key management personnel compensation

Information regarding individual Directors and senior executives' remuneration and shares held in Keybridge as required by Corporations Regulations 2M.3.03 is provided in the Remuneration Report on pages 16 to 26 of this Annual Report.

Other than as disclosed in this Note, no Director has entered into a material contract with Keybridge or the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

Senior executives (including for the Managing Director and Executive Director)

	Short-term employee benefits			Post-employment benefits	Total
	Cash salary	Incentive and retention payments	Share-based payments	Company contributions to superannuation	
	\$	\$	\$	\$	\$
Totals – 2016	1,292,531 [^]	—	165,270	80,454	1,538,255
Totals – 2015	958,812	—	36,346	60,542	1,055,700

[^] Includes termination payments paid due to resignations, redundancies and the sale of Aurora.

Chairman and Non-executive Directors

	Short-term employee benefits			Post-employment benefits	Total
	Cash fees	Incentive and retention payments	Share-based payments	Company contributions to superannuation	
	\$	\$	\$	\$	\$
Totals – 2016	233,109	—	—	5,700	238,809
Totals – 2015	200,000	—	—	5,700	205,700

Equity instrument disclosures relating to key management personnel movements in shareholdings including equity instruments granted as compensation via the Employee Equity Plan

The numbers of shares in Keybridge held during the financial year by key management personnel of the Group, including their personally-related entities is set out in the Remuneration Report on pages 16 to 26.

This includes shares provided as remuneration under the Executive Share Plan. See Note 27 and the Remuneration Report on pages 16 to 26 for details.

During the 2015 financial year, loans were issued to Keybridge executives to purchase 18,920,000 shares under the terms of the ESP. 3,920,000 were cancelled during the current financial year due to redundancies, resignations and the sale of Aurora. Detailed below is a breakdown of the costs:

Notes to the Financial Statements

28. RELATED PARTY DISCLOSURE (continued)

		Transactions value year ended 30 June		Balance outstanding* as at 30 June	
		2016	2015**	2016	2015**
		\$	\$	\$	\$
Director	Transaction				
Nicholas Bolton	Executive Share Plan Loan	75,559	(190,440)	1,563,618	1,488,060
Antony Sormann	Executive Share Plan Loan	50,373	(126,961)	1,042,412	992,039
Key Management Personnel					
John Corr	Executive Share Plan Loan	^	(49,341)	^	348,659
Simon Lindsay	Executive Share Plan Loan	^	(37,006)	^	261,494
Total		125,932	(403,748)	2,606,030	3,090,252

* Due to the different recourse nature of the principal amount and the accrued interest of the loans, only the accrued interest on the executive loans are recorded as a non-current asset in the Statement of Financial Position. The principal amount is not recorded until vested.

** Restated.

^ Cancelled due to resignations.

Key management personnel and director transactions

A director, or their related parties, holds positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

One of these entities transacted with Keybridge in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

		Transactions value year ended 30 June		Balance outstanding as at 30 June	
		2016	2015	2016	2015
		\$	\$	\$	\$
Director	Transaction				
Antony Sormann *	Consultant fees	—	77,000	—	—
Total		—	77,000	—	—

* Keybridge engaged the consultancy services of Nero Capital Pty Ltd, where Antony Sormann is a director, in relation to assistance and input over sale of assets and new investment opportunities. Amounts were billed based on market rates for such services and were due and payable under standard payment terms. This arrangement terminated in September 2014 when Antony Sormann became an employee of Keybridge Capital.

Other related party transactions

Loans to associates were advanced in prior periods, and were issued to Bridge Infrastructure Capital Pty Limited (BIC). The remaining loan to BIC is provided at a lower rate of interest, compared with prevailing market rates for similar type of loans. This loan originally had a 10-year maturity, expiring in 2017 and is a non-secured subordinated loan. The loan is denominated in Euros and is impaired. A repayment of \$0.759 million was received during the year (2015: \$1.162 million). The current interest rate charged is 7.25% (2015: 7.25%).

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 between 1 July 2015 and 30 June 2016 of \$1.82 million (2015: \$0.50 million) for the provision of responsible entity/trustee and asset management services to the funds.

Notes to the Financial Statements

28. RELATED PARTY DISCLOSURE (continued)

Key management personnel holdings in managed funds

As at the date of this report key management personnel direct/indirect holdings in AFML-managed funds for which AFML 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
2016						\$'000
J Corr & associates*	15,404	*	—	—	—	373
S Lindsay & associates*	86,786	*	—	—	—	498
2015						
J Corr & associates	268,463	283,867	\$283,867	15,404	—	871
S Lindsay & associates	140,097	105,214	\$105,214	86,786	(121,669)	3,320

* Aurora was sold on 30 June 2016 and there is no available information.

29. ACQUISITION OF SUBSIDIARY AND NON-CONTROLLING INTERESTS

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 the date of sale on 1 June 2016, Ledcom contributed revenue of nil and losses of \$0.752 million to the Group's results.

Consideration transferred

	2016 \$'000	2015 \$'000
Cash	373	—
Deferred settlement	498	—
	871	—

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

Identifiable assets acquired and liabilities assumed

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

Acquisition of subsidiary Aurora Funds Management Limited (AFML)

On 27 March 2015, the Group acquired 100% of the shares and voting interests of Aurora Funds Management Limited (AFML). As a result, the Group's equity interest in AFML increased from 0% to 100% and Keybridge obtained control of AFML as at 27 March 2015. The primary reason for the acquisition of AFML was to enable Keybridge to develop its funds management capabilities.

In the period 1 April 2015 to 30 June 2015, AFML made a loss of \$0.158 million. This is included in the loss from discontinued operations for the 2015 financial year.

Notes to the Financial Statements

29. ACQUISITION OF SUBSIDIARY AND NON-CONTROLLING INTERESTS *(continued)*

Consideration transferred

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

	Note	2016 \$'000	2015 \$'000
Cash (net of acquisition costs)		–	5,365
Contingent consideration	20	–	800
		–	6,165

Identifiable assets acquired and liabilities assumed

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

	2016 \$'000	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

Goodwill arising from the acquisition of AFML has been recognised as follows:

	Restated 2015 \$'000	Originally stated 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
Intangibles 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.

Acquisition-related costs

Acquisition related costs have been included in legal and professional expenses for the year.

Notes to the Financial Statements

30. DISCONTINUED OPERATIONS

The following table summarises the losses from discontinued operations:

	Note	2016 \$'000	2015 \$'000
Ledcom International S.r.l	30(a)	(874)	–
Aurora Funds Management Limited	30(b)	(4,396)	(158)
		(5,270)	(158)
<i>Non-controlling interest</i>	30(a)	226	–
		(5,044)	(158)

(a) Ledcom International S.r.l

On 1 June 2016, Keybridge sold its interest in Ledcom International S.r.l (Ledcom) to the remaining shareholders. With the sale of the investment, Keybridge no longer had shareholding of Ledcom and was not required to consolidate the results of Ledcom from the date of the sale. This resulted in eliminating Ledcom's assets and liabilities from the Group's results as at 30 June 2016.

Results of discontinued operation (Ledcom)

	2016 \$'000	2015 \$'000
Revenue	13	–
Expenses	(876)	–
<i>Results from operating activities</i>	(863)	–
Income tax benefit	(111)	–
<i>Results from operating activities, net of tax</i>	(752)	–
Loss on sale of discontinued operation	(122)	–
<i>Loss for the period</i>	(874)	–
<i>Non-controlling interest</i>	226	–
<i>Loss attributable to the owners of Keybridge Capital Limited</i>	(648)	–
Basic earnings per share (cents)	(0.55)	–
Basic earnings per share (cents) attributable to owners of Keybridge Capital Limited	(0.41)	–
Diluted earnings per share (cents)	(0.55)	–
Diluted earnings per share (cents) attributable to owners of Keybridge Capital Limited	(0.41)	–

Cashflow of discontinued operation (Ledcom)

	2016 \$'000	2015 \$'000
Net cash used in operating activities	(719)	–
Net cash from investing activities	–	–
Net cash from financing activities	–	–
<i>Effect on cash flows</i>	(719)	–

(b) Aurora Funds Management Limited

On 30 June 2016, Keybridge sold its shares held in Aurora Funds Management Limited (Aurora) to a third party. With the sale of the shares, Keybridge no longer controlled Aurora and was not required to consolidate the results of Aurora from the date of the sale. This resulted in eliminating Aurora's assets and liabilities from the Group's results as at 30 June 2016.

Notes to the Financial Statements

30. DISCONTINUED OPERATIONS(continued)

Results of discontinued operation (Aurora)

	2016 \$'000	Restated 2015 \$'000
Revenue	2,301	563
- Funds management fee	1,800	503
- Interest income	3	6
- Other income	498	54
Expenses	(4,505)	(721)
Results from operating activities	(2,204)	(158)
Income tax benefit	1,139	–
Results from operating activities, net of tax	(1,065)	(158)
Loss on sale of discontinued operation**	(3,331)	–
Loss for the period	(4,396)	(158)
Basic (loss) per share (cents)	(2.76)	(0.10)
Diluted (loss) per share (cents)	(2.76)	(0.10)

** Includes the fair value adjustment of \$1.884 million made in December 2015. No fair value adjustment was done prior to the sale of AFML. The entire loss has been recognised at the date of sale.

Cashflow of discontinued operation (Aurora)

	2016 \$'000	2015 \$'000
Net cash used in operating activities	(1,617)	(405)
Net cash from investing activities	913	(10)
Net cash from financing activities	–	–
Effect on cash flows	704	(415)

Details of the disposal (Aurora)

	2016 \$'000	2015 \$'000
Sales consideration	750	–
Deferred consideration	79	–
	829	–
Carrying amount of net assets sold	490	–
Intangible assets in the books of Keybridge	(2,252)	–
Impairment of Aurora – December 2015	(1,884)	–
Settlement adjustment at the date of sale	(597)	–
Settlement adjustments post the date of sale	83	–
Loss on sale of discontinued operation	(3,331)	–

Net proceeds from the sale of Aurora of \$153,000 was at the date of sale. This was made up of the sales consideration of \$750,000 less the settlement adjustments of \$597,000 at the date of sale.

Notes to the Financial Statements

30. DISCONTINUED OPERATIONS(continued)

(c) Prior year's discontinued operation

On 1 July 2014, Keybridge sold all shares it held in Australian Finance Direct (100% Keybridge subsidiary). Australian Finance Direct was acquired in March 2014 and was not previously classified as held-for-sale or as a discontinued operation.

There was no revenue or expenses during the current period and no cash flows.

	2016 \$'000	2015 \$'000
Effect of disposal on the financial position of the Group	—	—
Cash and cash equivalents	—	(53)
Trade and other receivables	—	(47)
Goodwill	—	(25)
Total identifiable net assets	—	(125)
Consideration received, satisfied in cash	—	125
Cash and cash equivalents disposed of	—	—
<i>Net cash inflow/(outflow)</i>	—	—

31. GROUP ENTITIES

The ultimate controlling party of the Group is Keybridge Capital Limited incorporated in Australia.

		Ownership interest	
		2016 %	2015 %
Significant subsidiaries	Country of incorporation		
Aurora Funds Management Limited*	Australia	—	100
Bridge Financial Pty Limited	Australia	100	100
Bridge Property Investments Pty Limited	Australia	100	100
KBC Telco Infrastructure Pty Limited	Australia	100	100
Keybridge Funds Management Pty Limited	Australia	100	100
Ledcom International S.r.l.**	Italy	—	—
MB Finance Pty Limited	Australia	100	100
Pacific Bridge Cyprus Limited	Cyprus	100	100

* Acquired 27 March 2015 and disposed 30 June 2016. ** Acquired 70% of interest 10 July 2015 and disposed 1 June 2016.

32. SUBSEQUENT EVENT

Subsequent to year end, there has been a change in the board of directors. Since year end, three directors have been appointed, namely Messrs Simon Catto, William Johnson and John Patton and both the Chairman, Andrew Moffat and non-executive director, Bill Brown have resigned. 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 under the review of operations and results.

On 3 August 2016, an investor in HHY Fund requested that an extraordinary general meeting of unit holders be called to replace the responsible entity (RE). This meeting was held on 29 September 2016. A decision was made to adjourn the meeting after Aurora Global Income Trust (ASX: AIB) announced its intention to make a script takeover bid for HHY Fund. Keybridge is the investment manager of HHY Fund. At this stage it is unknown how the above will impact Keybridge as investor in HHY Fund and as investment manager.

Notes to the Financial Statements

33. COMMITMENTS

a. Loan commitments

There are no undrawn commitments at year end (2015: nil).

b. Lease commitments

Payments recognized as an expense

	2016 \$'000	2015 \$'000
Minimum lease payments	48	85
	48	85

Non-cancellable lease commitments

	2016 \$'000	2015 \$'000
Less than one year	—	194
Between one and five years	—	3
	—	197

Keybridge leases office space in Sydney and Melbourne under operating leases. The lease of Keybridge's registered office address at Level 4, 1 Alfred Street, Sydney is a non-cancellable 4-year term with rent payable monthly. Contingent rental provisions within the lease agreement require minimum lease payments to be increased by 4% per annum. The current lease expires on 31 December 2016. As part of the Aurora sale, Aurora has taken over the lease.

The Melbourne office lease agreement expires on 31 December 2016. At 30 June 2016, office rent had been prepaid to December 2016. The monthly rental is \$4,000 per month.

c. Financial guarantees

The Group does not have any financial guarantees as at 30 June 2016 (2015: Nil).

34. CONTINGENCIES

There are no contingent assets or liabilities as at 30 June 2016 (2015: Nil).

35. AUDITOR'S REMUNERATION

During the year to 30 June 2016 the following fees were paid to the auditor of the Group, its related practices and non-related audit firms:

	2016 \$'000	2015 \$'000
Deloitte Touche Tohmatsu		
Audit and review of financial reports - Keybridge	158	—
Regulatory audits	9	—
Audit of financial reports - Aurora	128	100
Tax services	42	15
	337	115
KPMG		
Audit and review of financial reports***	1	97
Regulatory audits**	10	5
Tax services*	—	145
Due diligence services	—	26
	11	273
TOTAL	348[#]	388

* Included costs in obtaining an ATO class ruling on the issue CRPN for the benefit of shareholders.

** Cost overruns for the 2015 audit only billed in the 2016 financial year.

*** June 2015 audit technical considerations regarding the CRPN's only billed in the 2016 financial year.

[#] the Aurora audit fee for the 2016 financial year of \$127,615 in the loss from discontinued operation.

Notes to the Financial Statements

36. PARENT ENTITY DISCLOSURES

As at, and throughout the financial year ending 30 June 2016, the parent entity of the Group was Keybridge Capital Limited.

	2016 \$'000	Restated 2015 \$'000
Result of parent entity		
Profit/(loss) for the period	2,043	719
Other comprehensive income	–	–
Total comprehensive profit/(loss) for period	2,043	719
Financial position at year end		
Current assets	15,057	15,603
Total assets	28,357	32,477
Current liabilities	1,015	1,984
Total liabilities	5,218	6,410
Total equity of the parent entity		
Share capital	253,717	253,846
Reserves	1,813	842
Retained losses	(232,391)	(228,248)
Total equity	23,139	26,440

The parent entity has no contingencies or any capital commitments for property, plant and equipment. The parent entity has no guarantees over the debt of its subsidiaries.

Directors' Declaration

1. In the opinion of the Directors of Keybridge Capital Limited (Keybridge);
 - (a) the Consolidated Financial Statements and Notes that are set out on pages 30 to 81 and the Remuneration Report in the Directors' Report, set out on pages 16 to 26, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that Keybridge will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and the Company Secretary for the financial year ended 30 June 2016.
3. The Directors draw attention to Note 2(a) to the Consolidated Financial Statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a Resolution of Directors:



Antony Sormann
Director

Melbourne, 2 October 2016

Independent Auditor's Report to the members of Keybridge Capital Limited

We have audited the accompanying financial report of Keybridge Capital Limited ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the consolidated entity and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 30 to 82.

Directors' Responsibility for the Financial Report

The directors of the consolidated entity are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the consolidated entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the consolidated entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, 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 report.

Opinion

In our opinion:

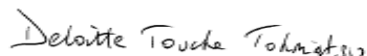
- (a) the financial report of Keybridge Capital Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Fund's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

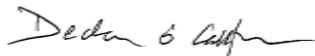
We have audited the Remuneration Report included on page 16 to 26 in the directors' report for the year ended 30 June 2016. The directors of the consolidated entity are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Keybridge Capital Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.



DELOITTE TOUCHE TOHMATSU



Declan O'Callaghan
Partner
Chartered Accountants

Sydney, 2 October 2016

Additional ASX Information

SHAREHOLDER INFORMATION AS AT 20 SEPTEMBER 2016

SUBSTANTIAL SHAREHOLDERS

The number of shares and convertible redeemable promissory notes held by substantial shareholders and their associates is set out below:

Category	Number of ordinary shares	% of voting rights	Convertible redeemable promissory notes	% of voting rights
Australian Style Group Pty Ltd	36,044,842	21.11%	717,308	—
Bentley Capital Limited & Scarborough Equities Pty Ltd	31,700,000	19.96%	—	—
Wilson Asset Management Group	16,795,514	16.87%	—	—

DISTRIBUTION OF EQUITY SECURITY HOLDERS

Category	Number of ordinary shares	Number of convertible redeemable promissory notes
1 to 1,000	41	817
1,001 to 5,000	189	87
5,001 to 10,000	170	26
10,001 to 100,000	281	47
100,001 and over	92	6
Total	773	983

The number of shareholders holding less than a marketable parcel of ordinary shares is 126.

UNQUOTED EQUITY SECURITIES

There are 15,000,000 ordinary shares issued under the Executive Share Plan which are unquoted. These are held by two shareholders and are described in the Remuneration Report on pages 16 to 26.

VOLUNTARY ESCROW

There are no shares subject to escrow arrangements, other than those issued under the Executive Share Plan. For these shares, the escrow period ends on 30 June 2018.

VOTING RIGHTS

Ordinary shares

On a show of hands, at a general meeting of Keybridge, every member present at a meeting in person or by proxy has one vote and upon a poll, each member has one vote for each ordinary share held. Refer to Note 22 in the financial statements.

Convertible redeemable promissory notes

There are no voting rights attached to the convertible redeemable promissory notes. Refer to Note 18 in the financial statements.

ON-MARKET BUY-BACK

Currently there is an on-market buy-back program in place to buy-back KBC shares for a 12 month period from 7 December 2015 of up to 16,214,566 shares. To date, no shares have been bought back by Keybridge. For the period from 1 December 2014 to 23 November 2015, there were a total of 3,426,811 KBC shares bought back in the previous buy-back program.

There is a buy-back program in place to buy-back Keybridge Convertible Redeemable Promissory Notes (KBCPA) for a 12 month period from 20 October 2015 of up to 495,694 convertible notes. To date, Keybridge has bought back 24,885 KBCPA.

Additional ASX Information

SECURITIES EXCHANGE

Keybridge Capital Limited ordinary shares and convertible redeemable promissory notes are quoted on the Australian Securities Exchange. (ASX Code: KBC and KBCPA).

TWENTY LARGEST SHAREHOLDERS

Name	Number of ordinary shares held	Percentage of capital held
Australian Style Group Pty Ltd	33,525,148	21.11
RBC Investor Services Australia Pty Limited	27,458,515	17.29
Scarborough Equities Pty Ltd	15,850,000	9.98
Bentley Capital Limited	15,850,000	9.98
J P Morgan Nominees Australia Limited	6,850,005	4.31
Cowoso Capital Pty Ltd	3,991,543	2.51
HSBC Custody Nominees (Australia) Limited-GSCO ECA	3,829,252	2.41
Mr Nicholas Bolton	3,495,133	2.20
Mr Stephen Norman Douglas Rowley	2,552,875	1.61
Citicorp Nominees Pty Limited	2,126,091	1.34
Dean Whitestone Pty Limited	2,000,000	1.26
Mr Patrick Martin Burroughs	2,000,000	1.26
Mr Donald Gordon Mackenzie + Mrs Gwenneth Edna Mackenzie	1,602,539	1.01
Jonrian Pty Ltd	1,347,200	0.85
Denald Nominees Pty Ltd	1,200,000	0.76
APPWAM Pty Ltd	1,000,000	0.63
Mr Keith Danby Lucas	1,000,000	0.63
Mastiff Nominees Pty Ltd	1,000,000	0.63
Trafalgar Street Nominees	909,091	0.57
Mr Yee Teck Teo	900,000	0.57
Top 20	128,487,392	80.91
Other holders	30,324,935	19.09
Total shares on issue	158,812,327	100.00

Name	Number of convertible redeemable promissory notes	Percentage of capital held
J P Morgan Nominees Australia Limited	930,755	21.15
Australian Style Group Pty Ltd	621,210	14.12
Aurora Funds Management Limited	385,825	8.77
Cowoso Capital Pty Ltd	160,876	3.66
PW and VJ Cooper Pty Limited	135,900	3.09
Nambia Pty Ltd	109,068	2.48
Gyton Pty Ltd	95,056	2.16
Mrs Cuixian Wang	77,000	1.75
A & G Siciliano Superannuation Pty Ltd	74,717	1.70
G Chan Pension Pty Limited	63,810	1.64
Jonrian Pty Ltd	60,000	1.45
Mr Wenrong Lu	59,897	1.36
Citicorp Nominees Pty Limited	59,057	1.34
Bond Street Custodians Limited	55,840	1.27
Csalt Super Pty Ltd	50,788	1.15
Mr Milton Yannis	42,259	1.03
Mr John Joseph Ryan	42,188	0.96
Freshmo Investments Pty Ltd	41,200	0.94
Mr John Corr	40,252	0.91
Mr Yee Teck Teo	35,000	0.80
Top 20	3,138,358	71.45
Other holders	1,257,349	28.55
Total number of CRPNs on Issue	4,401,047	100.00

SHAREHOLDER ENQUIRIES

Additional ASX Information

Shareholders with enquiries about their shareholdings should contact Keybridge's share registry, Registry Direct, by telephone on 1300 556 635.

CHANGED YOUR ADDRESS?

If you change your address, please promptly notify our share registry in writing. Please quote your Shareholder Reference Number and your old address as added security.

INVESTOR INFORMATION

Keybridge maintains a website at www.keybridge.com.au where Company information is available and a service for any queries is provided. For any further queries, please contact Keybridge on +61 2 8622 6692.

ONLINE RECEIPT OF THE ANNUAL REPORT AND SHAREHOLDER INFORMATION

Keybridge makes its Annual Report available online. The Company encourages shareholders to receive all other shareholder information including notices of all Annual General Meetings online. Shareholders who prefer to receive a hard copy of the Annual Report, or all other shareholder information by mail should advise the share registry in writing.

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Mr Ian Pamensky, CA

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