



Full Year Results to 30 June 2014

27 August 2014



Welcome.

My name is Nicholas Bolton, Keybridge's Managing Director, and I am pleased to present to you the Company's financial results for the financial year ended 30 June 2014. This presentation addresses the present status of the Company's financial position, its portfolio of assets, and the outlook for the business.

Last financial year the Company successfully concluded a number of complicated transactions during the period to realise illiquid assets, and has built a strong cash holding available to pursue new investments.

The Company successfully responded to a hostile takeover bid made for the Company by its then largest shareholder, Oceania Capital Partners Limited.

The Company commenced an on-market buy-back program with 15.8 million shares having already been acquired.

I will now turn to the results for the full year.

Summary

- Net loss after tax and impairment provisions of \$2.9 million
- \$14.9 million of investment realisations from difficult assets
- Strong cash position and no debt
- Over \$3 million returned to shareholders through the acquisition of 15.8 million shares under the on-market buy-back program
- Audited Net Tangible Assets of 23.0 cents per share at 30 June 2014
- Estimated unaudited Net Tangible Assets of 22.7 cents per share as at 31 July 2014

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For the year to 30 June 2014, Keybridge net loss after tax attributable to ordinary shareholders was \$2.9 million, compared with a loss of \$3.8 million in the prior year. This represents a basic and diluted loss of 1.74 cents per share (2.21 cents per share loss in 2013).

The realisation of \$14.9 million in cash from our non-core assets, all from positions under heavy distress and at a significant premium to the downside scenario.

The completion of a complex scheme of arrangement on PR Finance Group (PRFG), and the subsequent \$52 million sale of its major business. This transaction has so far resulted in \$10.5 million of cash return, which indirectly benefited the Company with approximately \$12 million in franking credits (of which \$4.3 million was utilised to offset a prospective 2013 negative franking deficit position).

The successful defence of an undervalued hostile takeover bid.

A return of \$3 million to shareholders by way of an on-market buy-back; marking the first capital return in eight years.

An appreciation in Keybridge's share price of 32.1% over the financial year.

A restructure of our Board and major shareholders that provides the Company a solid foundation to progress forward.

Profitability

	2014 \$m	2013 \$m
Income	1.9	5.9
Operating Costs	(2.8)	(2.6)
Non-recurring Costs	(1.4)	-
Borrowing Costs	-	(1.3)
Pre Tax Operating Profit	(2.3)	2.0
Foreign Exchange Gain	0.1	2.0
Net Impairments	(0.5)	(12.1)
Income Tax (expense)/benefit	(0.2)	4.3
NPAT	(2.9)	(3.8)

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- The majority of income is being recognised on two assets, one of which is paying quarterly disbursements with the most recent payment received in August 2014. The balance of income is interest earned at an average rate of 3.62% per annum on average cash on deposit of \$17.4 million for the 12 months to 30 June 2014.
- Operating expenses were higher for the year at \$4.2 million compared with \$2.6 million in 2013. The increase was due to higher legal and professional costs of approximately \$1.4 million associated with the acquisition of PRFG, the sale of Motor Finance Wizard, the recovery of the P&J Projects' (P&J) Loan and the response to OCP's takeover bid for Keybridge.
- The Australian Dollar appreciated by approximately 1.5% against the US Dollar and depreciated by 3.0% against the Euro in the twelve months to June 2014. This led to a net unrealised gain in the value of Keybridge's unhedged foreign currency assets of \$0.1 million (2013: gain of \$2.0 million).
- Since 30 June 2013, Keybridge has recognised a further \$0.5 million of net impairments across its portfolio, of which \$1.85 million is represented by the provision of the equity investment in PRFG and \$1.5 million was against the equity investment in the Spanish solar farm. An impairment of \$0.25 million was against a loan provided to a small ASX-listed entity, which entered voluntary administration in the second half of the financial year. The impairments were offset with a reversal of impairment of \$3.0 million against the property mezzanine loan.
- Oceanic Shipping, an entity previously consolidated by Keybridge, was disposed of in February 2014. The result was neutral to the Balance Sheet.

Profitability

	2014		
	1H	2H	Total
Income	0.5	1.4	1.9
Operating Costs	(1.6)	(1.2)	(2.8)
Non-recurring Costs	(0.5)	(0.9)	(1.4)
Pre Tax Operating Profit	(1.6)	(0.7)	(2.3)
Foreign Exchange	0.8	(0.7)	0.1
Net Impairments	(0.4)	(0.1)	(0.5)
Discontinued Operations	(0.1)	0.1	-
Income Tax	-	(0.2)	(0.2)
NPAT	(1.3)	(1.6)	(2.9)

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Looking at the trend of profitability through the year, we can see that there was a smaller net operating loss in the second half. This was delivered through managing regular operating costs, improved income across the portfolio.

The major negative contribution in the second half was the increase of non recurring take-over defense and legal recovery costs of approximately \$0.9 million which added to first half one-off costs of \$0.5 million.

The increase of the AUD against the USD and Euro in the second half generated a loss of \$0.7 million eroding the gain recorded in the first half of \$0.8 million.

Operating Cash Flow

Year to 30 June 2014	\$m
Cash Balance 1 July 2013	12.6
Investment income	1.2
Investment realisations	14.9
New investments	(7.0)
Operating Costs	(4.1)
Share Buy-Back	(3.1)
Cash Balance 30 June 2014	14.5
Average Cash Holdings	17.4

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Generating cash income continues to be a key focus.

Interest income received from cash on deposit was \$0.65 million and Totana of \$0.32 million.

Overall cash increased from June 2013 as a result of the partial repayment from the PRFG loan of \$10.5 million, a repayment from P&J of \$3.1 million, cash inflows from Totana of \$0.25 million, AMW \$0.28 million and Honglam \$0.6 million.

\$7.0 million in New investments included:

- \$1.3 million in Aurora Funds Ltd (AFV);
- \$2.7 million in other Listed Equities;
- \$1.9 million for the acquisition of PRFG by way of Scheme of Arrangement; and
- new lending investments of \$1.1 million.

Balance Sheet

	June 2014 \$m
Investments & Loans	3.8
Non-core investments & Loans	19.0
Cash	14.5
Other Assets	0.3
Liabilities	(1.0)
Shareholders' Funds	36.6

30 June 2014 NTA : \$0.230 per share

31 July 2014 NTA (unaudited): \$0.227 per share

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Keybridge's shareholders' funds were \$36.6 million as at 30 June 2014, with net tangible assets (NTA) of 23 cents per share, a reduction of 1 cent per share from 30 June 2013. The loss resulted primarily from \$1.4 million in non-recurring takeover and legal costs, and \$0.5 million in net asset impairments.

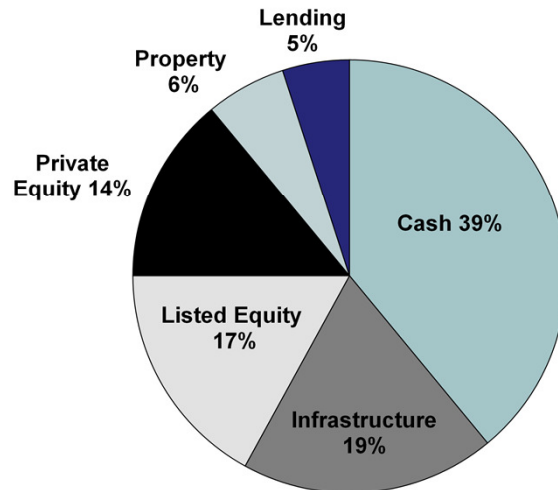
At 31 July 2014, the unaudited NTA has reduced to 22.7 cents per share as a result of a further unrealised mark to market decline in the share price of one listed investment.

Keybridge has no corporate debt with the only liabilities being accrued expenses such as audit, tax and other professional fees unpaid as at 30 June 2014.

At 30 June 2014, approximately 33% of Keybridge's assets were denominated in either US Dollars or Euros, which are currently unhedged against movement in Australian Dollar exchange rates.

Investments and Cash

30 June 2014
Total investments \$37.3m



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At 30 June 2014, the total book value of the Company's assets was \$37.3 million.

The largest asset class is cash representing 39% of total assets. Infrastructure - 19%, Listed Equity - 17%, Private Equity - 14%, Property - 6%, and Lending - 5%.

I will now go through those relevant investments in detail.

Investments

Infrastructure

- Equity investment in solar facility in Spain
- Total book value \$7.0 million as at 30 June 2014
- Plant operating at full capacity
- Spanish government proposal of new revenue cap
- \$1.5 million impairment taken after 30 June 2013 in response to proposed change of law

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Infrastructure: *Total book value \$7.0 million.*

In March 2008, Keybridge developed a 1.05MW solar photovoltaic electricity facility in southern Spain known as Totana. Although the plant has previously had some production issues that have been or are being rectified under warranty, the plant has been producing electricity in accordance with the original contract, and is generating regular income.

The original agreement with the Spanish government provided for a fixed feed-in tariff per kWh with partial CPI based increases, which was significantly above market electricity rates. In December 2010 the Spanish government placed a cap on the volumes able to receive this subsidised tariff.

More recently, the Spanish government has legislated additional changes to the revenue structure of all solar photovoltaic electricity, which we expect will further reduce the revenues that Keybridge is generating from its Totana plant. The legislation has not yet been ratified, and is currently being challenged by major industry players, but Keybridge decided during the year to recognise an impairment of \$1.5 million against its carrying value of the investment on the basis of the likely new revenue streams, once the legislation comes into effect.

Keybridge is continuing to actively seek a buyer for this investment as it is no longer considered a core asset.

Investments

Listed Equity

- Total book value \$6.3 million as at 30 June 2014, with significant shareholdings being a:
- 19.1% investment in PTB Group Limited (PTB), a turbo-prop aircraft parts and services supply organisation with operations in Queensland and New South Wales
- 19.85% investment in Aurora Funds Limited (AFV). Keybridge initially purchased 548,000 shares or 5% of the paid up capital in August 2013 and increased its holding to 2.2 million shares during the year

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Listed Equity: *Total book value \$6.3 million.*

Keybridge has grown its Listed Equity investments from 7% of the portfolio at June 2013 to 16% at June 2014. The majority of investments have been small stakes in shares in ASX-listed entities, with the two substantial holdings being:

- A 19.1% investment in PTB Group Limited (PTB), which is a turbo prop aircraft parts and services supply organisation with operations in Queensland and New South Wales. This investment is marked-to-market at each balance date, which, as at 30 June 2014, resulted in a decline in value of \$0.8 million from 30 June 2013.
- A 19.85% investment in Aurora Funds Limited (AFV). Keybridge initially purchased 548,000 shares or 5% of the paid up capital in August 2013 and increased its holding to 2.2 million shares during the year.

Investments

Private Equity

- Total book value \$5.2 million as at 30 June 2014
- Investment in US limited liability company which holds units in private equity fund
- Loan accrues interest at 14.5% per annum
- \$0.4 million of accrued income

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Private Equity: *Total book value \$5.2 million.*

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 with a carrying value of USD4.8 million is secured by Republic Limited Partnership Capital interest in the Private Equity Fund. The Limited Partnerships interest in the Fund was valued at USD23.2 million as at 30 June 2014 of which Keybridge holds security over a 50% of the Limited Partners interest valued at approximately USD11.6 million.

Keybridge received no repayments from its Private Equity investment during the twelve months to 30 June 2014 and accrued \$0.4 million in income.

Investments

Property

- \$3.0 million repayment received from P&J Projects received in February 2014. The transaction was \$3.0 million above carrying value at 30 June 2013
- \$0.3 million repayments of the other property investment in twelve months to 30 June 2014
- Two investments remaining with total book value \$2.5 million as at 30 June 2014
- Keybridge continues to look at ways of realising the remainder of the commercial mortgages

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Property: *Total book value \$2.5 million.*

P&J Projects: In 2007 and 2008, Keybridge invested \$5.95 million in mezzanine loans against a residential and retail property development located in inner Sydney. These loans are currently in default and accumulating interest such that the current face value of the loans outstanding is approximately \$9.3 million. Keybridge had previously written off these loans, however, on 17 February 2014, Keybridge was repaid approximately \$3.1 million as partial repayment.

Keybridge is currently pursuing legal action against the borrowers for the balance of the remaining loan and there may be further recovery from this asset in due course, however Keybridge continues to carry the value at nil.

AMW: Keybridge provided a loan to a fund run by Ashe Morgan Winthrop, which invested in first ranking mortgage loans over commercial properties. Keybridge is currently the sole lender to the portfolio with three loans still outstanding. Two of the loans relate to a property in the Sydney suburb of Manly, which have been in Receivership since June 2009. Legal actions against the original valuer are being actively pursued. This portfolio is currently being carried at a value of \$2.2 million and is generating some income.

Investments

Lending

- \$10.5 million of repayments in year to 30 June 2014
- Total book value at 30 June 2014 of \$1.2 million - being secured against the assets of the AMX business (expected to be repaid in October 2014)
- Since December 2013, Keybridge has provided new loans into four separate investments to the value of \$650,000. The investments are either highly liquid or short term in nature

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Lending: *Total book value \$1.8 million.*

Keybridge achieved a significant result this financial year by being repaid \$10.5 million of a \$11.7 million written value loan to PRFG. This was accomplished by first acquiring the shares in PRFG via a scheme of arrangement in August 2013 and then selling its Motor Finance Wizard business in September 2013.

In October 2013, Keybridge appointed an Administrator to PRFG and its subsidiaries after Australian Securities and Investments Commission (ASIC) issued a letter to AMX Money (AMX), a wholly-owned subsidiary of PRFG, expressing concerns that AMX may be breaching National Consumer Credit Laws and should immediately cease activity that may contravene these laws.

With the appointment of an Administrator, Keybridge was no longer required to consolidate the financial results of PRFG and therefore Keybridge has removed the assets and liabilities from the Statement of Financial Position for the twelve months to 30 June 2014. As previously announced, an impairment of \$1.85 million was applied to the carrying value of Keybridge's equity investment in PRFG.

At the beginning of the year, Keybridge was carrying the PRFG loan at a written down value of \$11.7 million. After repayments during the year of \$10.5 million, Keybridge has \$1.2 million remaining on the Balance Sheet at 30 June 2014 which was expected to be recovered via the sale of the underlying assets in AMX, which was agreed to by the Administrator prior to year end.

Since December 2013, Keybridge has provided new loans into four separate investments to the value of \$650,000. The investments are either highly liquid or short term in nature.

Investments

Shipping

- Three underlying vessels in Oceanic Shipping were sold in February 2014 with \$0.8 million of cash receipts repaid in March 2014
- As a result of disposal of the shares in Oceanic Shipping during the year, Keybridge is no longer required to consolidate results at 30 June 2014

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Shipping: *Total book value \$nil.*

As at 30 June 2013, Keybridge held an effective 48.5% investment in Oceanic Shipping Company 8 Limited (Oceanic Shipping). Oceanic Shipping owned three shipping vessels which were previously chartered to Honglam. On termination of the Honglam charter, Oceanic Shipping commenced operating the vessels and required further working capital from shareholders to continue to operate. The other significant shareholder in Oceanic Shipping declined to participate and offered to sell their 48.5% interest in Oceanic Shipping to Keybridge for USD1,000.

This was an opportunity for Keybridge to increase its share in Oceanic Shipping and be exposed to a greater share of any upside in the future disposal of the three vessels. On 1 July 2013, Keybridge acquired the additional 48.5% of the equity it did not already own in Oceanic Shipping. As a result of the acquisition of the additional shares and the control it now possessed, Keybridge was required to consolidate the financial results of Oceanic Shipping for the six months to 31 December 2013.

The three vessels were sold in February 2014 and Keybridge sold its shares in Oceanic Shipping and is no longer required to consolidate the financial results. Keybridge booked fees of \$0.3 million related to this transaction.

Management and Board

- Four personnel in management team
- Board consists of three non-executive directors and two executive directors

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Keybridge's parent company now only has a full time staff of four (including the Managing Director), and a Board of four directors (MD, ED and three non-executive directors). Transaction management is handled by the Managing and Executive Directors, with the other two staff assisting in day-to-day financial management, corporate governance and compliance for the Company.

The Company is currently considering the best application for its cash reserves and is reviewing a number of potential new opportunities. Shareholders will be kept informed as this strategy develops.

Outlook

- The Company is currently reviewing a number of investment opportunities and will keep the market informed as they progress
- Other non-core assets will be managed to maximise shareholder returns

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Now turning to the outlook for Keybridge.

Having largely completed the difficult program of complex asset realisations and workouts over the last few years, Keybridge is currently reviewing a number of investment opportunities and will keep the market informed as they progress.

Contact

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Thank you for your time today. If you have any follow-up questions, please contact me directly.