



# BABCOCK & BROWN STRUCTURED FINANCE FUND LIMITED

## **SGX Quarterly Report 30 June 2007**

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This report is not an offer or invitation for subscription or purchase or recommendation of BBSFF shares. It does not take into account the investment objectives, financial situation and particular needs of an investor. Before making an investment in BBSFF, an investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

Babcock & Brown Structured Finance Management Pty Limited, as manager of BBSFF is entitled to fees for so acting. BBL and its related corporations, together with their officers and directors, may hold shares in BBSFF from time to time.

This financial report has been prepared to enable the directors to comply with their obligations under the Singapore Exchange Securities Trading Limited Listing Rules and where relevant, to satisfy the requirements of the International Financial Reporting Standards. The responsibility for the preparation of the financial report and any financial information contained in this financial report rests solely with the directors of BBSFF.

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## REVIEW OF BABCOCK & BROWN STRUCTURED FINANCE FUND LIMITED PERFORMANCE

### Performance Overview

Babcock & Brown Structured Finance Fund Limited (“**BBSFF**” or “**the Company**”) and its subsidiaries collectively referred to as “**the Group**” have again performed strongly during the quarter. The strong result has enabled the Company to declare a dividend of 5.23 cents per share relating to the period from Listing on the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 20 December 2006 to 30 June 2007.

The dividend is 0.01 cents per share greater than the dividend projected in the BBSFF prospectus dated 12 December 2006 (the “**Prospectus**”). The additional amount has arisen from the cash economic income between Listing and 31 December 2006 being 0.53 cents as advised with the 2006 annual results.

The Company has also advised the market that it expects its second half 2007 dividend to be at least 5.50 cents per share, representing an increase of 0.66 cents per share from the Prospectus projections and reflecting an overall 7% increase in distributable cash economic income in the first year of performance. The increase in the second half 2007 distributable cash economic income is expected to be driven by:

- continued strong performance of investments acquired at Listing; and
- the new accretive investments acquired since Listing.

Investment performance has been strong across each of the Company’s asset classes. Of particular note has been the performance of the Class B membership interest in JET-i Holdings LLC and the investment in the Ancora – Seiza Warehouse Note Investment, both of which have delivered cash economic income during the quarter which has been significantly above the Prospectus projections.

The Company has advised the market that it expects to monetise its investment in the Class B membership interest in JET-i Holdings LLC during the second half of 2007. It is expected that the monetisation will result in a very attractive total return for the Company.

### Consolidated Income Statement

From an Income Statement perspective, both total revenue and net profit after tax are considerably higher than expectations. The majority of this increase is due to:

- net foreign exchange gains which have been recorded through the Income Statement resulting from a further weakening of the US dollar against the Euro, the British Pound and the Australian dollar; and
- increased interest income resulting from a higher outstanding balance for the Ancora – Seiza Warehouse Note Investment as well as accrued interest income on additional accretive investments acquired during the year.

The majority of investments acquired during the half year were acquired towards the end of the first quarter or early in the second quarter. These investments were debt funded and as a result, finance costs are higher this quarter compared with the first quarter.

Depreciation and amortisation is also higher this quarter compared with the first quarter. This is due to amortisation of the music assets which were acquired in two instalments between March and April.

At 30 June 2007 there was a negative market value adjustment of the Company’s distribution hedges. This negative adjustment was recorded through other operating expenses resulting in an increase in other operating expenses compared with the first quarter. This adjustment reflects the fact that should the Company enter into the same distribution hedges now, less total base currency would be required to secure the same amount of Singapore dollars.

An equity accounting loss has been recorded during the period on the Company's investment in the Class A membership interest in BBRNA. Equity accounting requires an investor to adjust the carrying value of its investment by reference to the movement in the underlying entities net assets. The equity accounting loss has arisen from BBRNA recognising the present value of the total guaranteed distributions to the investors as a liability in its financial statements. This has increased its liabilities and consequently decreased its net assets.

All other Income Statement line items are generally in line with expectations.

### **Investments/Divestments**

Since listing on the SGX-ST, the Group has made four new investments and increased its investment in two of the investments acquired at Listing. Each of these investments is described below:

1. *Ancora – Pepper Securitisation No. 3 Investment*

On 27 March 2007, the Company provided a letter of credit to Ancora (SF) Securitisation Pty Ltd ("**Ancora**") for A\$23.5 million, which purchased the non-rated and senior net interest margin notes in Pepper Residential Securities No. 6, a securitisation of Australian residential property mortgages.

2. *Music Copyright Assets*

During March and April 2007, the Group acquired music copyright asset catalogues for US\$28.1 million. Simultaneously, limited recourse debt of US\$15.4 million equal to 55% of the total cost (pre acquisition fees and expenses) was drawn-down secured against the assets.

3. *Avoca VII CLO Investment*

On 5 April 2007, the Group purchased Euro 15.0 million of notes in the Avoca CLO VII Plc securitisation, comprising Class F notes with expected rating of "B" from Standard and Poor's and Class G non-rated subordinated notes. These notes are secured by a portfolio of European leveraged loans, managed by Avoca Capital Holdings.

4. *Ancora – Seiza Augustus Series 2007-1 Trust*

On 23 April 2007, the Company provided a letter of credit to Ancora for A\$14.5 million in connection with Ancora's purchase of the non-rated Class G note and non-rated junior net interest margin note in the Seiza Augustus Series 2007-1 Trust, a securitisation of Australian commercial and residential mortgages.

5. *Class A membership interest in BBRNA*

On 6 April 2007, Babcock & Brown Rail North America LLC ("**BBRNA**"), through its wholly owned subsidiary, BBRX Four LLC, purchased the BBRX Four Portfolio comprising 1,351 freight car rolling stock on lease in North America for US\$112.6 million (inclusive of transaction costs). The Group has a 49.5% Class A membership interest in BBRNA and contributed US\$6.7 million for the purchase, taking its total investment in BBRNA to US\$38.6 million.

6. *Ancora – Seiza Warehouse Note Investment*

During the period since listing, the Company provided further letters of credit to Ancora for A\$6.5 million in connection with Ancora's purchase of the non-rated Class F, Class G notes and net interest margin notes issued by the Seiza Warehouse securitisation, a securitisation of Australian commercial and residential mortgages.

In addition, since 31 December 2006 the Group was released from certain of its letter of credit obligations in respect of Ancora – Pepper Securitisation No. 1 Investment (A\$5.0m) and Ancora – NFAL Guarantee investment (A\$17.0m). Both of these releases were projected.

**Other Highlights**

Other highlights during the half year to 30 June 2007 included:

- exercise of the over-allotment option with the majority of the proceeds invested in the AGSO Loan Guarantee until 2 April 2007, at which time the funds were withdrawn to fund other investments;
- increase of the Company's corporate debt facility from US\$96.6m to US\$116.6m;
- further syndication of the Company's corporate debt facility;
- confirmation of first half 2007 dividend projection; and
- upgrade of second half 2007 dividend projection.

## INVESTMENT PORTFOLIO

BBSFF was incorporated in Bermuda on 24 April 2006 and was subsequently registered as a mutual fund company. BBSFF was formed to invest in a diversified group of assets and economic exposures around the world.

The Group's existing investment portfolio is comprised of the following assets and economic exposures:

### Operating Lease Assets

#### ***Class B membership interest in JET-i Holdings LLC ("JET-i Holdings")***

JET-i Holdings is a United States limited liability company formed to acquire a portfolio of commercial aircraft which are leased to commercial airlines and is targeting a portfolio of up to US\$1.2 billion. The Group holds an 11.36% Class B membership interest in JET-i Holdings.

#### ***Babcock & Brown Aircraft Lessor No. 2 ("BBAL 2")***

The Group owns two Boeing 757-200 aircraft leased to First Choice Airways Ltd. The two leases mature on 30 April 2013 and have fixed monthly rentals over the lease periods with a step-up in monthly rentals on 1 May 2008.

#### ***CDS on JET-I Leasing Tranche B Debt ("CDS")***

The CDS is a collateralised credit default swap which the Group has entered into with Credit Suisse International. The swap has a notional amount of US\$25 million which has been secured by the Group pledging A-1+ rated commercial paper as credit support for the obligations under the swap. The CDS references mezzanine debt secured against the commercial aircraft fleet owned by the Jet-i Holdings Group, noted above in "Class B membership interest in Jet-i Holdings LLC".

#### ***Class A membership interest in BBRNA ("BBRNA")***

BBRNA is a United States limited liability company formed to aggregate a number of North American railcar investments managed or owned by the Babcock & Brown Group. The Group has acquired a 49.5% interest in BBRNA which currently owns a portfolio of over 7,800 railcars on lease in North America.

### Loan Portfolio and Securitisation Assets

#### ***Ancora – Pepper Securitisation No. 2 Investment ("Pepper 2")***

Pepper 2 is a securitisation vehicle which owns Australian non-conforming residential mortgage loans originated by Pepper Home Loans Pty Limited. The Group has invested in the non-rated note and the senior net Interest margin ("NIM") note.

#### ***Ancora – Pepper Securitisation No. 3 Investment ("Pepper 3")***

Pepper 3 is a securitisation vehicle which owns Australian non-conforming residential mortgage loans originated by Pepper Home Loans Pty Limited. The Group has invested in the non-rated note and the senior NIM note.

#### ***Ancora – Provident Inventory Finance ("PIF")***

PIF is a revolving purchase facility provided to specialty inventory financier Provident Inventory Finance Limited ("PIFL"). Under the facility, the Group purchases loan receivables originated by PIFL. The purchased loans are loans PIFL makes to its customers, typically small to medium enterprises for the purpose of purchasing inventory.

#### ***Ancora – Seiza Warehouse Note Investment ("Seiza")***

Seiza is an investment in a warehouse vehicle which owns Australian residential and commercial mortgages originated by Seiza Mortgage Company Pty Limited, ("the Seiza Group"). The Group has invested in the Class F, Class G and NIM notes.

***Ancora – Seiza Augustus 2007-1 Trust (“Seiza Augustus”)***

Seiza Augustus is a securitisation vehicle which owns Australian non-conforming commercial and residential mortgage loans originated by Seiza Group. The Group has invested in the Class G notes and junior NIM notes.

***Mortgages plc Securitisation Investment (“Mortgages”)***

Mortgages plc is a United Kingdom based originator of non-confirming mortgages. The Group has invested in 50% of two classes of certificates issued by Newgate Funding 2006-3 plc which is a securitisation vehicle owning non-conforming mortgages originated by Mortgages plc.

***Paradox Capital LLC – Subordinated Loan (“Paradox”)***

The Group has invested in a loan to Paradox Funding LLC which is a United States limited liability company. The proceeds are used by the Paradox group to make or purchase loans secured by intellectual property owned by corporate borrowers located in the United States and Europe.

***Avoca VI CLO Investment (“Avoca VI”)***

Avoca VI is a European collateralised loan obligation (“CLO”) vehicle which is managed by Avoca Capital Holdings (“Avoca”). The Group has invested in subordinated notes issued by Avoca VI which are secured by collateral consisting of European senior secured, second lien and mezzanine loans.

***Avoca VII CLO Investment (“Avoca VII”)***

Avoca VII is a European CLO vehicle which is managed by Avoca. The Group has invested in the Class B notes and the subordinated notes in Avoca VII. The Avoca VII notes are secured by collateral consisting of European senior secured, second lien and mezzanine loans.

**Alternative Assets*****North American Biofuels Loan Facility (“NABF”)***

The Group has invested in a secured loan to Babcock & Brown Biofuels Holdings LLC (“**Biofuels Borrower**”). The loan has been used by members of the Biofuels Borrower Group to invest in and develop ethanol production facilities in the United States.

***AGSO Loan Guarantee (“AGSO”)***

The Group has provided a guarantee secured by a letter of credit to Deutsche Bank to enable Babcock & Brown Prime Broking Trust, to secure additional borrowings under a limited recourse debt facility it has with Deutsche Bank. The Group has security over listed securities to secure recovery of any amount paid under the AGSO Loan Guarantee.

***Paramount Mezzanine Loan (“Paramount”)***

The Group has invested in a secured subordinated loan to Royal Palm Paramount Bay LLC which is being used to fund the development of an ultra-luxury condominium development project in Miami Florida in the United States.

***Music Copyright Assets (“Music Assets”)***

The Group has invested in music copyright interests in over 1,000 musical compositions.

## ECONOMIC OUTLOOK

Macroeconomic conditions will be a key determinant of the performance of a number of BBSFF's existing investments and will be a consideration in determining where future investments are made.

Overall, it is expected that global economic growth will moderate in 2007, relative to 2006, but with strong growth continuing in the Asian region. This pattern is broadly consistent across most geographic areas in which BBSFF has investments. However, the dynamics in each of the major economies in which BBSFF participates, and will seek to expand, may differ.

- United States ("US")

A slowdown in the US economy appears to have emerged in 2007 which is now showing weakening growth and moderating inflation. There is continued weak US housing construction, lower housing prices which may curb consumer spending and a severe crisis in the US sub-prime market, which is dominating financial news. The sub-prime crisis has the capacity to result in economic outcomes not strictly empirically linked to the actual results of the sub-prime delinquencies and defaults, but owing to the fears in the market the crisis is, and will probably continue, to generate. Interest rates are anticipated to remain broadly stable throughout the first nine months of 2007 and the US labour market is anticipated to remain tight with unemployment remaining at low levels, but again some commentators are predicting a loosening of monetary policy as the slowdown becomes more pronounced.

- United Kingdom ("UK")

The Bank of England increased interest rates in July for the 5<sup>th</sup> time since August 2006 taking the cash rate to 5.75%. There appears to be evidence in both the mortgage and consumer credit sectors that a moderating of growth is occurring as a result of the raises. Overall however GDP is still expected to grow at long term trend levels. Housing prices have grown by around 10% over the past year however there is some evidence that housing price growth is abating as the effects of rate rises constrain affordability.

- Mainland Europe

Economic growth in mainland Europe is moderating in 2007 according to current data. However, unemployment is likely to remain low and money supply growth has increased. The European Central Bank did not raise interest rates in July, but commentators have not ruled out further increases in interest rates over the course of 2007.

- Australia

Australia enjoys its sixteenth year of uninterrupted economic growth and the rate of growth is expected to remain roughly in line with 2006. On 8 August 2007, the Reserve Bank of Australia increased interest rates by 0.25% taking the cash rate to 6.50%. The interest rate rise was in response to recent inflation numbers being higher than expected and general strengthening of economic fundamentals. There is the prospect of a further interest rate rise of 0.25% by the end of 2007. Housing price recovery continues throughout Australia in all major capital cities, with the notable exception of some outer Sydney and Melbourne suburbs softening or losing value. Overall house prices have increased by around 9% over the past 12 months. Prices are assisted overall by strong underlying demand, tight housing supply and labour market strength. The currently discussed issue is "housing affordability" which perhaps constrains growth but is of course a result of prior price appreciation. The potential for adverse housing market conditions in 2007 exist in the Western Australian and Northern Territory markets which have shown characteristics of an unsustainable price bubble, largely driven by the resources boom, but these are yet to eventuate. BBSFF will closely evaluate the impact of interest rate rises on loan portfolio performance.

Consequently, BBSFF will continue to look for acquisitions in these four economies, but will seek to broaden its geographic diversity, where favourable and sustainable economic conditions are expected to exist. The economic growth in Asia continues to be monitored by the Manager, but BBSFF remains disciplined in its approach to acquisitions.

## BUSINESS OUTLOOK

### Operating Lease Assets

Conditions in the aircraft market have continued to move positively over the past six months driven by continued strong passenger demand particularly in Asia, where the tight supply of aircraft has resulted in increasing lease rates and aircraft values. Over the latter half of 2006, there were a number of sales of portfolio of aircraft by way of initial public offerings and trade sale at prices that appeared attractive for the vendors. As announced, BBSFF expects to take advantage of these conditions to exit its investment in JET-i Holdings LLC over the course of 2007 on what it believes will be very favourable terms. That said, recent market volatility could result in such monetisation not proceeding if the returns were not appropriate for the Jet-i investors. In that circumstance, BBSFF would continue to own its interest in the Jet-i Group, which has, as previously noted, performed above expectations. BBSFF expects that further leased aircraft which meet its investment criteria will be available for acquisition in 2007.

With the slowing of the US economy combined with the fact that deliveries of new freight cars have been maintained in 2005 and 2006, whereas new orders have declined overall, the market is not expecting a dramatic increase in either values or revenues from freight car rolling stock in North America in 2007. Demand for younger fleets remains strong and the leasing market continues to gain ground as a method by which freight forwarders will access equipment. BBRNA expects to acquire further leased portfolios of freight rolling stock which meet agreed eligibility criteria in 2007 and BBSFF will consider further investment at the time, in light of economic and industry conditions, as well as the overall portfolio mix of BBSFF.

### Alternative Assets

The market environment for biofuels has deteriorated since Listing due to decreasing prices available from the sale of biofuels and increased input costs of feedstock such as corn and palm oil. BBSFF's decision to invest as a secured lender with substantial equity investment below it in the capital structure provides a measure of insulation from the economic impact of commodity fluctuations.

The market for single obligor structured loans remains active, resultant from the continued relatively strong business cycle and the seeming inability of traditional lenders to adapt to the changed credit and collateral markets. Investments in this sector are opportunistic, rather than specific to a particular economic sector and must be assessed on their own merit at the time. BBSFF expects that as its portfolio increases within other targeted asset classes, it may be again prudent to invest in a further single obligor structured loan.

The music publishing industry continues to grow in size and investor understanding. Industry consolidation continues, and the volume and variety of product, and the continued demand for copyrights, created in part by new technologies for delivery of product, suggests that BBSFF's strategy of accumulating small to medium sized, well seasoned catalogues will be achieved over the short to medium term. The continued strengthening of copyright protection laws, not only in Western but in emerging economies, will further underpin the confidence of equity and debt investors in the asset class. BBSFF expects to make further acquisitions of music copyright in 2007.

### Loan Portfolio and Securitisation Assets

In Australia, over the next one to two years, continued strong employment conditions, limited additional interest rate increases and single-digit increases in housing prices are expected and, in combination, these should limit defaults and losses that may be incurred on defaulting loans.

Accordingly, BBSFF will continue to leverage its relationship with the Ancora Group and its strategic partners in Australia to access quality loan portfolio and securitisation transactions. In the UK, expected continued strong employment levels and growth in housing prices should favourably impact mortgage portfolio performance with risks emerging if rates increase significantly from current levels. This suggests that further investment in the UK may be considered by BBSFF throughout 2007.

In the first half of 2007, European leveraged loans were being concluded with debt ratios towards the high end of historical levels and some spread contraction. However a market correction since mid June has seen spreads widen considerably in the secondary market. BBSFF believes that economic conditions in Europe remain conducive to sound performance and accordingly, will continue to focus on the European CLO market.

The US ABS CDO market provides exposure to US mortgages, including sub-prime mortgages. Since the beginning of 2007, there has been extreme turmoil and market disruption in this market, particularly for sub-prime exposures, and spreads have widened considerably. BBSFF has no existing direct or indirect exposure to this sector and will not consider any investments in this sector until BBSFF believes there is greater clarity in the market and it considers itself able to assess the transactions.

**INCOME STATEMENT**

	Group for the quarter ended 30 June 2007 S\$'000	Group year to date 30 June 2007 S\$'000	Group for the quarter ended 30 June 2006 S\$'000	Group period from incorporation to date 30 June 2006 S\$'000
<b>Revenue</b>				
Distribution income	504	1,141	-	-
Interest income	12,099	21,350	-	-
Rental income	1,469	2,919	-	-
Guarantee fee income	1,099	2,322	-	-
Net foreign exchange gains	5,377	7,182	-	-
Other operating income	851	1,107	-	-
<b>Total revenue</b>	<b>21,399</b>	<b>36,021</b>	-	-
<b>Expenses</b>				
Management fees	1,576	2,917	-	-
Depreciation and amortisation	726	1,156	-	-
Finance costs	4,687	7,429	-	-
Other operating expenses	994	1,605	-	-
<b>Total expenses</b>	<b>7,983</b>	<b>13,107</b>	-	-
<b>Share of loss in equity accounted investment</b>	<b>1,666</b>	<b>1,666</b>	-	-
<b>Profit before tax</b>	<b>11,750</b>	<b>21,248</b>	-	-
<b>Income tax (expense) / benefit</b>	<b>548</b>	<b>503</b>	-	-
<b>Profit after tax</b>	<b>12,298</b>	<b>21,751</b>	-	-
<b>Basic earnings per share (cents per share)</b>	<b>3.21</b>	<b>5.71</b>	-	-
<b>Diluted earnings per share (cents per share)</b>	<b>3.20</b>	<b>5.70</b>	-	-

BBSFF was incorporated on 24 April 2006, and was listed on the Main Board of the Singapore Stock Exchange Securities Trading Limited on 20 December 2006. Prior to that date, BBSFF did not engage in any commercial or other activity. As a result, the financial result for period from incorporation to 30 June 2006 was nil.

**BALANCE SHEET**

	Group as at 30 June 2007 S\$'000	Group as at 31 December 2006 S\$'000	Company as at 30 June 2007 S\$'000	Company as at 31 December 2006 S\$'000
<b>Assets</b>				
Cash and cash equivalents <sup>1</sup>	127,584	64,953	26,482	400
Available for sale financial assets	179,906	123,728	379	-
Loans and receivables	148,244	148,866	360	-
Intercompany receivables	-	-	-	-
Guarantee fees receivable	6,761	7,659	-	-
Aircraft	44,731	45,551	-	-
Investments in subsidiaries	-	-	362,117	355,099
Investment in equity accounted investment	56,379	48,953	-	-
Intangible assets – music copyright assets	47,835	-	-	-
Deferred tax assets	586	1	-	-
Other assets	308	1,587	4,079	1,515
<b>Total assets</b>	<b>612,334</b>	<b>441,298</b>	<b>393,417</b>	<b>357,014</b>
<b>Liabilities</b>				
Guarantee fees payable	6,572	7,643	-	-
Interest bearing liabilities	251,249	127,737	147	41
Deferred tax liabilities	84	3	-	-
Intercompany payable	-	-	1,634	-
Other liabilities	25,295	2,105	23,836	533
<b>Total liabilities</b>	<b>283,200</b>	<b>137,488</b>	<b>25,617</b>	<b>574</b>
<b>Net assets attributable to shareholders</b>	<b>329,134</b>	<b>303,810</b>	<b>367,800</b>	<b>356,440</b>
<b>Shareholders equity</b>	<b>329,134</b>	<b>303,810</b>	<b>367,800</b>	<b>356,440</b>
Net assets per share (\$ per share)	0.86	0.85	0.96	0.99
Net tangible assets per share (\$ per share)	0.73	0.85	0.96	0.99

<sup>1</sup> Cash and cash equivalents for the Group as at 30 June 2007 is comprised of S\$91 million of short-term deposits used to support cash-backed letters of credit in connection with the AGSO loan guarantee and the Ancora commercial paper program.

**STATEMENT OF CASH FLOWS**

	Group for the quarter ended 30 June 2007 S\$'000	Group year to date 30 June 2007 S\$'000	Group for the quarter ended 30 June 2006 S\$'000	Group period from incorporation to date 30 June 2006 S\$'000
<b>Cash flows from operating activities</b>				
Operating costs	(1,576)	(3,689)	-	-
Interest income	10,579	18,092	-	-
Guarantee fee income	1,521	3,059	-	-
Distribution income	1,549	2,382	-	-
Rental income	460	898	-	-
<b>Net cash inflow from operating activities</b>	<b>12,533</b>	<b>20,742</b>	-	-
<b>Cash flows from investing activities</b>				
Investment in Class A Membership Interest in BBRNA	(10,248)	(10,248)	-	-
Purchase of intangible assets	(3,003)	(46,504)	-	-
Purchase of financial assets	(76,002)	(127,505)	-	-
Loan repayments received	62,025	85,640	-	-
<b>Net cash outflow from investing activities</b>	<b>(27,228)</b>	<b>(98,617)</b>	-	-
<b>Cash flows from financing activities</b>				
Proceeds from issue of ordinary shares	-	25,268	-	-
Proceeds from borrowings	32,714	114,115	-	-
Capital raising costs	-	(1,713)	-	-
Borrowing costs paid	(2,641)	(4,312)	-	-
<b>Net cash inflow from financing activities</b>	<b>30,073</b>	<b>133,358</b>	-	-
<b>Net increase in cash and cash equivalents</b>	<b>15,378</b>	<b>55,483</b>	-	-
Cash and cash equivalents at beginning of period	105,759	64,953	-	-
Effects of exchange rate changes on cash and cash equivalents	6,447	7,148	-	-
<b>Cash and cash equivalents at 30 June 2007</b>	<b>127,584</b>	<b>127,584</b>	-	-

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**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

Changes in shareholders equity of the Group for the quarter ended 30 June 2007	Share capital and reserves S\$'000	Retained earnings S\$'000	Translation reserves S\$'000	Total S\$'000	Group for the quarter ended 30 June 2006 S\$'000
<b>Opening balance</b>	328,451	14,616	(9,637)	333,430	<sup>1</sup>
Profit for the period	-	12,298	-	12,298	-
Foreign currency translation reserve	-	-	3,466	3,466	-
Total recognised income for the period	-	12,298	3,466	15,764	-
Transactions with equity holders in their capacity as equity holders:					
Dividend for the period	-	(20,060)	-	(20,060)	-
Transaction costs	-	-	-	-	-
<b>Balance as at 30 June 2007</b>	<b>328,451</b>	<b>6,854</b>	<b>(6,171)</b>	<b>329,134</b>	-

Changes in shareholders equity of the Group for the year to date ended 30 June 2007	Share capital and reserves S\$'000	Retained earnings S\$'000	Translation reserves S\$'000	Total S\$'000	Group period from incorporation to date 30 June 2006 S\$'000
<b>Opening balance</b>	304,572	5,163	(5,925)	303,810	<sup>1</sup>
Profit for the period	-	21,751	-	21,751	-
Foreign currency translation reserve	-	-	(246)	(246)	-
Total recognised income for the period	-	21,751	(246)	21,505	-
Transactions with equity holders in their capacity as equity holders:					
Issue of share capital	25,447	-	-	25,447	-
Issue of share capital – reinvestment of management fees	157	-	-	157	-
Dividend for the period	-	(20,060)	-	(20,060)	-
Transaction costs	(1,725)	-	-	(1,725)	-
<b>Balance as at 30 June 2007</b>	<b>328,451</b>	<b>6,854</b>	<b>(6,171)</b>	<b>329,134</b>	-

<sup>1</sup> BBSFF was incorporated in Bermuda on 24 April 2006. Two ordinary shares of \$1.00 each have been issued as of the date of incorporation.

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY**

Changes in shareholders equity of the Company for the quarter ended 30 June 2007	Share capital and reserves S\$'000	Retained earnings S\$'000	Translation reserves S\$'000	Total S\$'000	Company for the quarter ended 30 June 2006 S\$'000
<b>Opening balance</b>	386,196	1,261	(11,246)	376,211	- <sup>1</sup>
Profit for the period	-	7,755	-	7,755	-
Foreign currency translation reserve	-	-	3,894	3,894	-
Total recognised income for the period	-	7,755	3,894	11,649	-
Transactions with equity holders in their capacity as equity holders:					
Dividend for the period	-	(20,060)	-	(20,060)	-
Transaction costs	-	-	-	-	-
<b>Balance as at 30 June 2007</b>	<b>386,196</b>	<b>(11,044)</b>	<b>(7,352)</b>	<b>367,800</b>	-

Changes in shareholders equity of the Company for the year to date ended 30 June 2007	Share capital and reserves S\$'000	Retained earnings S\$'000	Translation reserves S\$'000	Total S\$'000	Company period from incorporation to date 30 June 2006 S\$'000
<b>Opening balance</b>	362,317	1,150	(7,027)	356,440	- <sup>1</sup>
Profit for the period	-	7,866	-	7,866	-
Foreign currency translation reserve	-	-	(325)	(325)	-
Total recognised income for the period	-	7,866	(325)	7,541	-
Transactions with equity holders in their capacity as equity holders:					
Issue of share capital	25,447	-	-	25,447	-
Issue of share capital – reinvestment of management fees	157	-	-	157	-
Dividend for the period	-	(20,060)	-	(20,060)	-
Transaction costs	(1,725)	-	-	(1,725)	-
<b>Balance as at 30 June 2007</b>	<b>386,196</b>	<b>(11,044)</b>	<b>(7,352)</b>	<b>367,800</b>	-

<sup>1</sup> BBSFF was incorporated in Bermuda on 24 April 2006. Two ordinary shares of \$1.00 each have been issued as of the date of incorporation.

## ACCOUNTING POLICIES APPLICATION

Accounting policies and methods of computation applied in preparation of these figures that are not stated in this report are the same as those used in the most recently audited annual financial statements of the Group and the Company. There have been no changes in accounting policies during the quarter however with the acquisition of the Music Copyright Assets the following accounting policy has been adopted:

### Intangible assets

#### *Music Copyright Catalogues*

Acquired music copyright catalogues are initially capitalised at an amount which includes the contracted purchase price and other directly attributed costs of preparing the asset for its intended use. Music copyright catalogues are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the Income Statement using the straight-line method over the estimated useful lives of the catalogues which is expected to be no greater than 35 years. Costs associated with holding the music copyright catalogues are recognised as an expense when incurred.

The amortisation period and amortisation method of intangible assets are reviewed at least quarterly. The effects of any revision of the amortisation period or amortisation method are included in the Income Statement for the financial period in which the change arises.

## DIVIDENDS

The Company declared an interim dividend of 5.23 Singapore cents per ordinary share in respect of the period from listing to 30 June 2007. This dividend will be paid on 14 September 2007.

As the Company was incorporated in Bermuda and is not resident in Singapore for tax purposes, dividends paid by the Company will be regarded as foreign-source income for Singaporean tax resident recipients.

Foreign dividends are subject to Singapore income tax when received in Singapore by corporate shareholders.

Foreign dividends received by foreign investors with no permanent establishment in Singapore are generally not subject to Singapore income tax.

Foreign-sourced dividends received by individuals in Singapore (whether resident or otherwise) are exempt from Singapore income tax unless these dividends are received via partnerships.

Neither Singapore nor Bermuda currently imposes withholding tax on dividends paid to non-Singapore or non-Bermudan tax resident shareholders.

## CHANGES IN SHARE CAPITAL

There was no change in share capital during the quarter ended 30 June 2007.

## NET ASSET VALUE

	<b>Group as at 30 June 2007 S\$'000</b>	<b>Group as at 31 December 2006 S\$'000</b>	<b>Company as at 30 June 2007 S\$'000</b>	<b>Company as at 31 December 2006 S\$'000</b>
<b>Net asset value</b>				
Total net asset value (\$'000)	329,134	303,810	367,800	356,440
Total number of ordinary shares on issue used in calculation of net asset value per share ('000)	383,562	359,401	383,562	359,401
Net asset value per ordinary share (\$ per share)	0.86	0.85	0.96	0.99

Net asset value per ordinary share is derived by dividing the net assets as disclosed in the balance sheet of the Group as at 30 June 2007 by the number of ordinary shares on issue as at 30 June 2007.

## EARNINGS PER SHARE

	<b>Group for the quarter ended 30 June 2007 S\$'000</b>	<b>Group year to date 30 June 2007 S\$'000</b>	<b>Group for the quarter ended 30 June 2006 S\$'000<sup>1</sup></b>	<b>Group period from incorporation to date 30 June 2006 S\$'000<sup>1</sup></b>
<b>Basic earnings per share</b>				
Earnings used in calculation of basic earnings per share (S\$'000)	12,298	21,751	-	-
Weighted average number of shares on issue used in calculation of basic earnings per share ('000)	383,562	380,708	-	-
Basic earnings per share (cents per share)	3.21	5.71	-	-
<b>Diluted earnings per share</b>				
Diluted earnings used in calculation of diluted earnings per share (\$'000)	12,298	21,751	-	-
Weighted average number of shares on issue used in calculation of diluted earnings per share ('000)	384,795	381,395	-	-
Diluted earnings per share (cents per share)	3.20	5.70	-	-

In future periods, shares may be issued to the Manager in lieu of management fees otherwise payable in cash. This will have a dilutive effect on Earnings per Share.

<sup>1</sup> BBSFF was incorporated on 20 April 2006, and was listed on the Main Board of the Singapore Stock Exchange Securities Trading Limited on 20 December 2006. Prior to that date, BBSFF did not engage in any commercial or other activity. As a result, the financial result for period from incorporation to 30 June 2006 was nil.

## INTEREST BEARING LIABILITIES

	<b>Group as at 30 June 2007 S\$'000</b>
Term loans <sup>1</sup>	121,840
Commercial paper notes <sup>2</sup>	129,409
<b>Total interest bearing liabilities</b>	<b>251,249</b>
Amount repayable in one year or less, or on demand	200,412
Amount repayable after one year	50,837
<b>Total interest bearing liabilities</b>	<b>251,249</b>
Amount secured	251,249
Amount unsecured	-
<b>Total interest bearing liabilities</b>	<b>251,249</b>

<sup>1</sup> The term loans are secured against the two Boeing 757-200 aircraft leased to First Choice Airways Ltd, the four music copyright catalogues held by the Group and partially against the assets of the Company and its subsidiaries, BBSFF Asset Holdings Ltd; BBSFF Operating Lease Limited; BBSFF Loan Portfolio & Securitisation Limited; and BBSFF Alternative Assets Limited.

<sup>2</sup> Under the LC Procurement Agreement dated 27 October 2006, between BBSFF and Ancora Group, BBSFF has agreed to procure letters of credit from a bank rated A1+ by Standard & Poor's to support the commercial paper program which Ancora group has established.

## CONTRACTUAL ARRANGEMENT

At the time of the acquisition of the initial music copyright assets the Company entered into a Music Catalogue Introduction Agreement with the Spirit Music Group ("Spirit"). The Babcock & Brown Group has a majority interest in Spirit resulting in transactions between Spirit and the Company being deemed related party transactions. Under the terms of the Music Catalogue Introduction Agreement, Spirit may be entitled to certain fees and profits on music copyright assets introduced to the Company by Spirit. The nature and quantum of any such fees and profits are dependent on the outcome of a vote of the Company's Shareholders at its next shareholder General Meeting.

## AUDIT OR REVIEW

The financial information set out from page 10 to page 17 of this report have been extracted from the interim financial report that has been reviewed in accordance with Singapore Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

The extract of the review report dated 11 August 2007 on the interim financial report of the Company and its subsidiaries for the period ended 30 June 2007 is attached to this announcement in page 19.

## SUBSEQUENT EVENTS

On 29 June 2007, the SGX-ST provided its in-principle approval for the listing and quotation of 1,233,309 ordinary shares to the Manager to satisfy its obligation to pay the base management fee for the quarter ended 30 June 2007. On 2 July 2007, these shares were issued to the Manager.

Following the issue of these new ordinary shares, the total shares in issue was 384,795,016.

**CONFIRMATION OF THE BOARD PURSUANT TO RULE 705(4) OF THE LISTING MANUAL**

On behalf of the Board of Directors of Babcock & Brown Structured Finance Fund Limited, we, the undersigned hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the financial statements for the second quarter and half year ended 30 June 2007 to be false or misleading in any material respect.

On behalf of the Board of Directors



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Richard Umbrecht  
Director  
11 August 2007



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Tara Railton  
Director  
11 August 2007

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**To the Shareholders and Board of Directors of Babcock & Brown Structured Finance Fund Limited  
("Company") and its subsidiaries ("Group")**

**Report on Review of Interim Financial Information for the second quarter and half year ended 30  
June 2007**

*Introduction*

We have reviewed the accompanying condensed balance sheet of the Company as of 30 June 2007 for the three-month period and six-month period then ended, the condensed consolidated balance sheet of the Group as of 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows of the Group for the three-month period and six-month period then ended, and other explanatory notes ("interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

*Scope of Review*

We conducted our review in accordance with Singapore Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Singapore Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34.



PricewaterhouseCoopers  
Certified Public Accountants

Singapore  
11 August 2007