



# BABCOCK & BROWN STRUCTURED FINANCE FUND LIMITED

## **SGX Report for the Financial Period from Date of Incorporation to 31 December 2006**

Investments in Babcock & Brown Structured Finance Fund Limited ("BBSFF") are not deposits with or other liabilities of Babcock & Brown Limited ("BBL"), or any entity in the Babcock & Brown Group and are subject to investment risk, including possible loss of income and capital invested. Neither Babcock & Brown Structured Finance Management Pty Limited (manager of BBSFF), nor any member of the Babcock & Brown Group guarantee the performance of BBSFF or the payment of a particular rate of return on the shares of BBSFF.

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 ("BBSFF") PERFORMANCE**

### **COMPARISON OF ACTUAL RESULTS AGAINST THE PROSPECTUS FORECAST**

Babcock & Brown Structured Finance Fund Limited ("**BBSFF**" or "**the Company**"), and its subsidiaries collectively referred to as the "**Group**", performed well during the period, meeting forecasts as detailed in the BBSFF Prospectus dated 12 December 2006 (**the "Prospectus"**).

### **INCOME STATEMENT**

The following table compares two different time periods:

- the actual results for the Group for the period from incorporation on 24 April 2006 to 31 December 2006; and
- the forecast results set out in the Prospectus in respect of the period from 20 December 2006 ("**the Listing Date**") which was the date BBSFF listed on the Main Board of the Singapore Exchange Securities Trading Limited (**the "SGX-ST"**) to 31 December 2006.

The table details actual profit after tax of S\$62.9 million for the period 24 April 2006 to 31 December 2006 compared to the Prospectus forecast profit after tax of S\$1.8 million for the period from 20 December 2006 to 31 December 2006. However, actual profit after tax for the same period as the Prospectus forecast was S\$5.2 million.

The difference between the actual profit from the period since incorporation to 31 December 2006 and the period from the Listing Date to 31 December 2006 was due solely to revaluation income on the Asset Call Option (as defined in the Prospectus).

The difference between the actual profit from the period from the Listing Date to 31 December 2006 and the Prospectus forecast was primarily due to foreign exchange rate fluctuations.

An analysis of key differences between the Prospectus forecast and the actual results follows the table.

Discrepancies between the amounts included in the individual line items below and the totals thereof are due solely to rounding.

	Group For the Period ended 31 December 2006 Actuals S\$ million	Group For the Period from Listing to 31 December 2006 Forecast S\$ million
<b>Revenue</b>		
Distribution Income	0.4	0.4
Interest Income	2.1	1.9
Rental Income	0.2	0.2
Guarantee Fee Income	0.3	0.2
Net Foreign Exchange Gains	3.0	0.0
Other Income	57.9 *	0.0
<b>Total Revenue</b>	<b>63.7</b>	<b>2.7</b>
<b>Expenses</b>		
Management Fees	(0.2)	(0.1)
Depreciation/Amortisation	(0.0)	(0.0)
Finance Costs	(0.4)	(0.4)
Other Operating Expenses	(0.2)	(0.2)
<b>Total Expenses</b>	<b>(0.8)</b>	<b>(0.8)</b>
<b>Share of Loss in Equity Accounted Investment</b>	<b>(0.0)</b>	<b>(0.1)</b>
<b>Profit before Tax</b>	<b>62.9</b>	<b>1.8</b>
<b>Income Tax (Expense)/Benefit</b>	<b>0.0</b>	<b>0.0</b>
<b>Profit after Tax</b>	<b>62.9</b>	<b>1.8</b>

\* Included within this amount is the revaluation income from the Asset Call Option of S\$57.8 million. This income was recognised prior to the listing of BBSFF and therefore was not included in the Prospectus forecast.

Year to Date refers to the period from the date of incorporation being 24 April 2006 to 31 December 2006.

### **Analysis of Profit after Tax**

The total profit after tax for the Group for the Year to Date was \$62.9 million. The majority of the profit related to revaluation income on the Asset Call Option which was recognised prior to the Listing Date of BBSFF.

The total profit after tax for the period from the Listing Date to 31 December 2006 was \$5.2 million which was generally in line with the Prospectus forecast with the exception of foreign currency translation gains.

Both of these items are explained below as well as other differences between the Prospectus forecast and the actual results for the Year to Date.

### **Analysis of Revenue**

Total revenue of BBSFF for the Year to Date was \$63.7 million. Total revenue of BBSFF for the period from the Listing Date to 31 December 2006 was \$6.0 million compared to \$2.7 million in the Prospectus forecast.

The reason for the significant increase in revenue relates to foreign currency translation gains of \$3.0 million relating to the period from the Listing Date to 31 December 2006 and revaluation income of \$57.8 million (included in "Other Income") relating to the revaluation of the Asset Call Option which was recognised prior to the listing of BBSFF.

The foreign currency translation gains have resulted from a weakening of the United States dollar ("USD") against the Euro, British pound and Australian dollar. This has had the effect of increasing the USD value of BBSFF's investments in these currencies which has resulted in foreign exchange gains which are required to be recognised in the Income Statement in accordance with International Financial Reporting Standards ("IFRS"). Foreign exchange gains/losses were not included in the Prospectus forecast as future foreign exchange movements were not known at that time.

The revaluation income related to the revaluation of the Asset Call Option between BBSFF and Babcock & Brown Structured Finance Trust ("**BBSFT**"). Following the revaluation, BBSFF declared a dividend to its sole shareholder, Babcock & Brown BBSFF Holdings Limited ("**the Vendor**") equal to the revaluation amount. The Vendor subsequently reinvested this dividend into additional ordinary shares of BBSFF. Importantly, the revaluation occurred prior to the listing of BBSFF and was therefore not included in the Prospectus forecast.

Interest income for the Year to Date was \$2.1 million compared to \$1.9 million in the Prospectus forecast representing an 11% increase from the Prospectus forecast. The increase was primarily due to a higher asset balance for the Ancora – Seiza Warehouse Note Investment than the balance assumed to be outstanding during the forecast period in the Prospectus. The other driver of the increase was foreign exchange movements.

Guarantee fee income and other income were also higher than the Prospectus forecast. The guarantee fee income increase was due solely to foreign exchange movements and other income increased as a result of the revaluation income (explained above) and a positive mark-to-market valuation on BBSFF's 2007 distribution hedges.

### **Analysis of Expenses**

Total expenses of BBSFF for the Year to Date were consistent with the Prospectus forecast at \$0.8 million.

Management fees for the Year to Date were \$0.2 million compared to \$0.1 million in the Prospectus forecast. This increase was primarily due to a higher asset balance at 31 December 2006 for the Ancora – Seiza Warehouse Note Investment than the balance assumed to be outstanding during the forecast period in the Prospectus.

## BALANCE SHEET

There were no material changes to the consolidated balance sheet from the period from listing to 31 December 2006 other than for the acquisition of the Group's 49.5% Class A membership interest in Babcock & Brown Rail North America LLC ("**BBRNA**") for US\$31.9 million.

The BBRNA acquisition was disclosed in the Prospectus as a commitment and in substance formed part of the Group's initial assets and economic exposures. The Group's investment in BBRNA is accounted for as an equity accounted investment due to the fact that the Group is deemed to have joint control over the financial and operating policy decisions of BBRNA.

## BORROWINGS

At 31 December 2006, BBSFF had total outstanding borrowings of \$127.7 million. The borrowings were comprised of US\$19.5m (S\$29.9 million) of limited recourse debt on BBSFF's aircraft and A\$80.6 million (S\$97.8 million) of commercial paper funding the assets owned by Ancora Securitisation (SF) Trust ("**Ancora**").

At 31 December 2006, BBSFF had letters of credit outstanding with an aggregate face amount of A\$80.7 million (S\$98.0 million) which were used to support the commercial paper program conducted by Ancora.

At 31 December 2006, BBSFF had an additional A\$50.0 million (S\$60.7 million) of letters of credit outstanding with an aggregate face amount of A\$50.0 million (S\$60.7 million), issued in connection with the AGSO Loan Guarantee.

## CASH FLOWS

BBSFF acquired its initial assets and economic exposures from two sources. Firstly from Babcock & Brown SF No. 1 Pty Ltd as trustee for Babcock & Brown Structured Finance Trust (the "**Warehouse Vehicle**") on the Listing Date and secondly by procuring letters of credit to support the Ancora commercial paper program.

The Warehouse Vehicle was formed on 11 April 2006 for the purpose of acquiring a number of the initial assets and economic exposures which would be purchased by BBSFF. The Warehouse Vehicle was a wholly owned Babcock & Brown Group entity and issued debt to investors to assist in purchasing assets and economic exposures.

BBSFF's acquisition of assets from the Warehouse Vehicle was pursuant to the Asset Call Option Agreement entered into between BBSFF and the Warehouse Vehicle. Pursuant to the Asset Call Option, BBSFF acquired the shares in BBSFF Asset Holdings Limited at the Asset Call Option Price (as defined in the Prospectus).

The acquisition of the Warehouse Assets was funded by the proceeds of the share subscription on the Listing Date by the Babcock & Brown Group.

BBSFF's acquisition of economic exposures to Ancora was financed by a drawdown on its debt facility in the form of letters of credit.

It is important to note, the public offering of shares in BBSFF was technically structured as a sale of shares held by the Babcock & Brown Group. Consequently, with the exception of approximately S\$51.6 which was used principally for BBSFF's investments in the Class A membership interest in BBRNA, all of the net proceeds of the public offering of shares in BBSFF were received by the Babcock & Brown Group.

## 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.

On 20 December 2006 BBSFF listed on the Singapore Exchange Securities Trading Limited (“**SGX-ST**”).

### EXISTING INVESTMENT PORTFOLIO

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 a 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 6,500 railcars on lease in North America.

## **Loan Portfolio and Securitisation Assets**

### ***Ancora – Pepper Securitisation No. 1 Investment (“Pepper 1”)***

Pepper 1 is a securitisation vehicle which owns Australian non-conforming mortgage loans originated by Pepper Home Loans Pty Limited. The Group has invested in the BB note, which has been rated by Standard & Poor’s, and the non-rated note.

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

Pepper 2 is a securitisation vehicle which owns Australian non-conforming 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 Group has invested in the Class E, Class F, Class G and NIM notes.

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

Mortgages plc is a United Kingdom based originator of non-conforming 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”)***

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

## **Alternative Assets**

### ***Ancora – NFAL Guarantee (“NFAL”)***

The Group has invested in a secured loan to Natural Fuels Darwin Pty Limited for use in the development of a biodiesel plant in Darwin Australia.

### ***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.

## **BUSINESS AND ECONOMIC OUTLOOK**

### **Economic Outlook**

Macro-economic conditions will be a key determinant of the performance of a number of BBSFF's existing investments and as noted will determine 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**

A mild slow down in the US economy over the course of 2007 is expected, largely resulting from continued weak US housing construction and lower housing prices which may curb consumer spending. Additionally, interest rates should remain broadly stable throughout the first 9 months of 2007 and the US labour market is anticipated to remain tight with unemployment remaining at low levels.

- **United Kingdom**

Economic growth in the United Kingdom is expected to moderate only slightly in 2007 with unemployment remaining around 3% to 3.5%. Despite interest rate increases over the course of 2006, housing prices remained strong with increases averaging around 7.5% across the United Kingdom and London returning to double digit growth. Continued house price appreciation is anticipated, even if interest rates are increased by a further 0.25% from current levels.

- **Mainland Europe**

Economic growth in Mainland Europe is expected to moderate over the course of 2007. However, unemployment is likely to remain low. The potential for a further 0.25% increase in interest rates over the course of 2007 exists as the European Central Bank returns interest rates to a more neutral setting.

- **Australia**

As Australia enters its sixteenth year of uninterrupted economic growth, the rate of growth is expected to remain roughly in line with 2006. The likelihood of a further 0.25% increase in interest rates in the current cycle has decreased but not been eliminated with the unemployment rate at 30 year lows, inflation in line with Reserve Bank of Australia targets and labour markets tight. Housing prices continued to recover throughout Australia in 2006 in all major capital cities except Sydney with strong underlying demand, tight housing supply and labour market strength underpinning the market. 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.

Consequently, BBSFF will continue to look for acquisitions in these 4 economies, but will seek to broaden its geographic diversity, where favourable and expectantly sustainable economic conditions exist. The economic growth in Asia continues to be monitored by the manager, but BBSFF remains disciplined in its approach to acquisitions.

## **BUSINESS AND ECONOMIC OUTLOOK**

### **Targeted Asset Classes - 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, the tight supply of aircraft which 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. 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 favourable terms. BBSFF expects that further leased aircraft will be available for acquisition in 2007 which meet its investment criteria.

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

International shipping values continue to flatten out after cyclical highs in 2005 and 2006. As the pattern becomes clearer, BBSFF may consider an investment in shipping operating leases.

### **Targeted Asset Classes - Loan Portfolio and Securitisation Assets**

In Australia, over the next 1 - 2 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 Ancora Group and the strategic partners in Australia to access quality loan portfolio and securitisation transactions. In the UK, expected continued strong employment levels, continued growth in housing prices and the expectation that there will only be one further tightening of monetary policy in the current cycle should favourably impact mortgage portfolio performance. This suggests that further investment in the UK may be considered by BBSFF throughout 2007.

Despite European leveraged loans currently being concluded with debt ratios towards the high end of historical levels and some spread contraction, it is believed that economic conditions in Europe remain conducive to sound performance. Accordingly, BBSFF will continue to focus on the European CLO market.

### **Targeted Asset Classes - Alternative Assets**

Overall, the market environment for biofuels has deteriorated in the period since listing, due to decreasing prices available from the sale of biofuels and the increased input costs of feedstock such as corn and palm oil. BBSFF's decision to invest as a secured mezzanine lender with substantial equity investment below it in the capital structure largely insulates it from the economic impacts of commodity fluctuations, and the incidence of commodity fluctuations again demonstrates that prudence must be maintained in the decision on where in the capital structure BBSFF should be invested.

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. To talk of any one economy as impacting this market is however wrong, as opportunities are opportunistic and must be assessed on their own merit at the time. BBSFF expects that as its portfolio increases within other targeted asset classes it will be again prudent to invest in a further single obligor structured loan.

The music copyright industry continues to grow in size and investor understanding. Industry consolidation continues, and yet 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.

### **DIVIDENDS**

The Company declared a dividend to the Vendor prior to listing in respect of the income from the revaluation of the Asset Call Option. The dividend was settled by the Vendor subscribing for additional new shares prior to listing.

As outlined in the Prospectus, the Company intends to declare and pay its first dividend since listing in respect of the period from listing to 30 June 2007. This dividend is expected to be paid during 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 establishments in Singapore are generally not subject to Singapore income tax.

Foreign dividends received by individuals in Singapore (whether resident or otherwise) are exempt from Singapore income tax.

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

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## **SIGNIFICANT ACCOUNTING POLICIES OF BBSFF**

The significant accounting policies of BBSFF, which have been consistently applied in preparing the Consolidated Financial Statements, are as follows:

### **(a) Basis of Preparation of Consolidated Financial Statements**

The Consolidated Financial Statements have been prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board.

The Consolidated Financial Statements, expressed in Singapore Dollars and rounded to the nearest thousand, have been prepared on the historical cost basis, except that certain financial assets and financial liabilities are stated at fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

BBSFF has not applied certain standards and interpretations that have been issued as of the balance sheet date but are not yet effective. The initial application of these standards and interpretations is not expected to have any material impact on BBSFF's Consolidated Financial Statements.

BBSFF has not considered the impact of accounting standards issued after the balance sheet date.

### **(b) Functional Currency**

Items included in the financial statements of BBSFF are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to BBSFF (the “functional currency”). The functional currency of BBSFF is the United States (“US”) dollar.

### **(c) Foreign Currencies**

#### *Foreign Currency Transactions*

Transactions in foreign currencies are translated at rates ruling on transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into US dollars at the foreign exchange rates ruling at that date. Foreign exchange differences arising from the translation are recognised in the income statement. Non-monetary assets and liabilities measured at cost in a foreign currency are translated using exchange rates at the date of the transaction. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated into US dollars at foreign exchange rates ruling at the dates the fair value was determined.

#### *Presentation Currency*

The financial statements of BBSFF are presented in Singapore dollars because the shares of BBSFF are listed on the Main Board of the SGX-ST. Assets and liabilities other than the profit and loss for the current year are translated from the functional currency of US dollars to Singapore dollars at rates of exchange ruling at the balance sheet date. Income and expense items are translated at the average exchange rates for the period. All equity items other than the profit and loss for the current year are translated at historical rates. Resultant exchange differences are recognised directly in equity.

**(d) Consolidation**

Subsidiaries are entities (including special purpose entities) controlled by BBSFF. Control exists when BBSFF has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Investments in subsidiaries are stated at fair value, with any resultant gain or loss being recognised directly in the income statement.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Business combinations are accounted for under the purchase accounting method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. BBSFF accounts for common control business transactions using the book value cost method whereby the accounting entries are based on the book values of the assets and economic exposures at the date of acquisition.

Associates are entities in which BBSFF has significant influence, but not control, over financial and operating policies. They are accounted for using the equity method of accounting from the day that significant influence commences until the date that significant influence ceases.

Entities which are jointly controlled by BBSFF are accounted for using the equity method of accounting from the day that joint control commences until the date that joint control ceases. Joint control exists where there is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the entity require the unanimous consent of the parties sharing the control.

Under the equity method, the investment in the jointly controlled entity is initially recognised at cost and the carrying amount is increased or decreased to recognise BBSFF's share of the profit or loss of the jointly controlled entity after the date of acquisition. BBSFF's share of the profit or loss of the jointly controlled entity is recognised in the income statement. Distributions received from the jointly controlled entity reduce the carrying amount of the investment. When BBSFF's share of losses exceeds the carrying amount of the jointly controlled entity, recognition of further losses is discontinued unless BBSFF has incurred obligations or made payments to satisfy obligations of the associate that BBSFF has guaranteed or otherwise committed on behalf of.

**(e) Aircraft**

Aircraft are recognised at cost less accumulated depreciation and impairment losses. Depreciation is recognised on a straight-line basis so as to write down the aircraft to the estimated residual value over a period of approximately 6.5 years, which represents the shorter of the lease term and the estimated useful life of the aircraft.

**(f) Financial Assets***Available for sale Financial Assets*

Available for sale financial assets are stated at fair value, with any resultant gain or loss being recognised directly in equity. The exceptions are impairment losses and foreign exchange gains and losses on monetary items, which are recognised in the income statement. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in the income statement.

*Loans and Receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**(g) Acquisition Costs**

Costs which are directly attributable and incremental to the acquisition of an asset are capitalised into the asset balance.

**(h) Guarantee Fees**

Guarantee fees receivable are recognised at the present value of the discounted cash flows of the guarantee fee over the duration of the guarantee agreement. The asset is matched with a corresponding guarantee fee payable which reflects the deferred guarantee fee income. Guarantee fees payable are amortised to the income statement over the term of the guarantee on a straight line basis.

**(i) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash balances and bank deposits.

**(j) Impairment**

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are determined. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment loss is charged to the income statement.

*Calculation of Recoverable Amount*

The recoverable amount of loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Loans and receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are 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. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

*Reversal of Impairment*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

**(k) Interest-bearing Liabilities**

Interest-bearing liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the term of the liabilities using the effective interest method.

**(l) Derivative Financial Instruments**

The Group may use derivative financial instruments to hedge its exposure to interest rate and foreign exchange risks arising from operating, financing and investing activities. BBSFF does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially in the balance sheet at fair value. Subsequent to initial recognition, derivative financial instruments are remeasured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. (See accounting policy 1(m)).

**(m) Hedging***Fair Value Hedges*

Where a derivative financial instrument hedges the change in fair value of a recognised asset or liability or an unrecognised firm commitment (or an identified portion of such asset, liability or firm commitment), any gain or loss on the hedging instrument is recognised in the income statement. The hedged item is also stated in the balance sheet at fair value in respect of the risk being hedged, with any gain or loss recognised in the income statement.

*Cash Flow Hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised immediately in the income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains and losses that were recognised directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

**(n) Share Issue Costs**

Share issue costs represent expenses incurred in connection with the listing of BBSFF on SGX-ST. Except for listing fees which are deducted directly from Shareholders' equity, all share issue costs were borne by the Babcock & Brown Group.

**(o) Revenue Recognition***Interest Income*

Interest income is recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period, to the net carrying amount of the financial asset.

*Rental Income*

Rental income is recognised in the income statement on a straight-line basis over the lease term.

*Dividend Income*

Dividend income is recognised in the income statement when the right to receive payment is established.

*Guarantee Fee Income*

Guarantee fee income is recognised in the income statement over the period of the guarantee procurement service.

**(p) Expenses***Finance Costs*

Interest expenses and similar charges are recognised in the income statement in the period in which they are incurred, using the effective interest method.

#### *Manager's Fees*

Management fees paid/payable to the manager, Babcock & Brown Structured Finance Management Pty Limited ("**the Manager**") in its capacity as the manager of BBSFF are recognised on an accruals basis.

#### **(q) Taxation**

BBSFF is a resident for tax purposes solely in Bermuda. Under the current laws of Bermuda, there is no income, corporation, withholding tax, capital gains or other taxes payable by BBSFF. To the extent subsidiaries of BBSFF have tax related balances these will be reflected in the BBSFF consolidated results.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill nor deductible for tax purposes and for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

#### **(r) Lease Receivables**

Lease receivables relating to aircraft are non-derivative financial assets with fixed or determinable payments recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less allowance for impairment.

#### **(s) Segment Reporting**

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to the risks and rewards that are different from those of other segments.

The business segments are Operating Lease Assets, Loan Portfolio and Securitisation Assets, and Alternative Assets. The geographical segments are United States, Australia, the United Kingdom and Europe.

#### **(t) Critical accounting estimates and judgments in applying accounting policies**

BBSFF makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are evaluated on an ongoing basis and take account of historical experience and expectations of future events.

#### *Fair value of Available for Sale financial assets*

The fair values of Available for Sale financial assets that are not quoted in active markets is determined by using valuation techniques such as discounted cash flow analysis, valuation of similar investments and reference to recent sales transactions of the same or similar assets. A variety of assumptions are made which are based on historical data as well as current market conditions.

*Impairment of assets*

The carrying values of all assets are reviewed on a quarterly basis for indications of impairment. Indicators such as changes in interest rates, creditworthiness of borrowers in the case of loans, performance of the investment, assessment of the performance of the underlying collateral, where applicable, and other asset-specific and industry and economic factors are considered as part of the assessment. To the extent that an indication of impairment is identified, a detailed assessment of the recoverable amount is performed.

*Derivatives (including embedded derivatives)*

The fair values of derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel. All models are certified (internally or by external experts) before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of the derivatives in the balance sheet and their related gains or losses in the income statement.

*Special purpose entities*

The Group is exposed to special purpose entities ("**SPE's**") primarily for the purpose of holding investments, for asset securitisation transactions and for buying or selling credit protection. The Group does not consolidate SPE's that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, management makes judgments about the Group's exposure to the risk and rewards, as well as about the Group's ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE but when considered together make it difficult to reach a clear conclusion. In such cases, management makes judgments as to whether the Group does indeed control an SPE.

## CHANGES IN SHARE CAPITAL

On 24 April 2006, BBSFF was incorporated in Bermuda with the issue of two shares of par value \$1.00 each.

Prior to the listing on the SGX-ST, BBSFF's sole shareholder approved the subdivision of the two shares of S\$1.00 each in its authorised and issued share capital into 200 ordinary shares of S\$0.01 each and to increase its authorised share capital to S\$700 million divided into 70 billion ordinary shares of S\$0.01 each by the creation of an additional 69,999,999,800 ordinary shares of S\$0.01 each.

## INTERESTED PERSON TRANSACTIONS

### (a) DIRECTORS

The following persons were directors of BBSFF during the financial period:

		Date of Appointment
Richard Lees Umbrecht	Executive Director & Chairman	14 August 2006
James Fantaci	Executive Director	14 August 2006
Tara Leonard Railton	Independent Director & Deputy Chairman	25 October 2006
Joel Peter Schaefer	Independent Director	25 October 2006
Dilhan Pillay Sandrasegara	Independent Director	25 October 2006
Soon Kie Lee	Independent Director	25 October 2006

BBSFF was incorporated on 24 April 2006 however the Company was not organised until 14 August 2006 at which time the first directors of BBSFF were appointed.

### (b) DIRECTORS REMUNERATION

Richard Umbrecht and James Fantaci are executive directors of BBSFF, and are not entitled to any remuneration from BBSFF, other than reimbursement of expenses incurred on behalf of BBSFF, such as travel costs and accommodation.

Tara Leonard Railton, Joel Peter Schaefer, Dilhan Pillay Sandrasegara and Lee Soon Kie are each entitled to an initial annual directorship fee of US\$50,000 per annum, paid quarterly in arrears and it is expected that this annual fee will remain fixed until 31 December 2007. The maximum aggregate amount of fees payable to the Directors in respect of one year is the number of Directors appointed at the relevant time multiplied by US\$70,000. No directorship fees have been paid by BBSFF in respect of the period from incorporation to 31 December 2006.

### (c) THE MANAGER

Babcock & Brown Structured Finance Management Pty Limited (“**The Manager**”) of BBSFF was appointed by the Company as the sole and exclusive manager pursuant to two management agreements dated 12 December 2006.

The following relationships and transactions with the Manager exist:

	<b>Group 2006 S\$'000</b>
<b>Transactions</b>	
Base management fees	157
Incentive fee	-
Structuring fee	-
Acquisition base fee	-
Divestment base fee	-
Equity raising fee	-
Debt raising fee	-
Dividends	-

	<b>Group As at 31 December 2006 S\$'000</b>	<b>Company As at 31 December 2006 S\$'000</b>
<b>Balances</b>		
Accrued base management fees	157	157
Total liabilities payable to the Manager	<b>157</b>	<b>157</b>

The Manager holds no ordinary shares in the Company. The Manager has requested BBSFF to pay the base management fee for the period ended 31 December 2006 in the form of shares. Subject to the approval of the SGX-ST, the Company is expecting to issue 153,929 ordinary shares to the Manager to satisfy its obligation to pay the base management fee.

### (d) BABCOCK & BROWN GROUP

BBSFF acquired a number of its initial assets and economic exposures from Babcock & Brown Structured Finance Trust (“**BBSFT**”) on the Listing Date. The acquisition was pursuant to an Asset Call Option agreement between BBSFF and BBSFT. The Asset Call Option price was S\$304.4 million.

A member of the Babcock & Brown Groups holds 10% of the total number of shares in issue by the Company.

Babcock & Brown Limited (“**BBL**”) is the ultimate parent of the Manager. BBL and its subsidiaries (“**the B&B Group**”) are an important source of acquisition opportunities and financial and acquisition advice.

The following transactions between the Company and its subsidiaries and the B&B Group took place during the period from the date of listing and 31 December 2006:

### **Transactions**

#### *Class A membership interest in BBRNA*

On 21 December, Babcock & Brown Rail Fund No. 1 Limited paid US\$31.9 million to Babcock & Brown Rail North America Limited ("**BBRNA**") for a 49.5% interest in BBRNA.

BBRNA has accrued management fees payable to the Babcock & Brown Group of US\$84,734 in connection with the period from 22 December 2006 (the date on which BBRNA became an equity accounted investment BBSFF) to 31 December 2006. Of this, BBSFF's effective share was US\$41,943, based on its 49.5% interest.

### **SUBSEQUENT EVENTS**

On 22 January 2007, the global co-ordinator of BBSFF's initial public offering (UBS AG, acting through its business group, UBS Investment Bank) exercised the over-allotment option on behalf of the underwriters of the initial public offering. The over-allotment option resulted in a further 24,006,688 shares being issued at S\$1.06 per share.

The total shares in issue immediately after the exercise of the over-allotment option being exercised was 383,407,778.

**INCOME STATEMENT**

	Group For the quarter ended 31 December 2006 S\$'000 Unaudited	Group Year to date 31 December 2006 S\$'000 Unaudited
<b>Revenue</b>		
Distribution Income	354	354
Interest Income	2,057	2,057
Rental Income	160	160
Guarantee Fee Income	251	251
Net Foreign Exchange Gains	3,013	3,013
Other Operating Income	57,862 *	57,862 *
<b>Total Revenue</b>	<b>63,697</b>	<b>63,697</b>
<b>Expenses</b>		
Management Fees	(157)	(157)
Depreciation	(44)	(44)
Finance Costs	(403)	(403)
Other Operating Expenses	(181)	(181)
<b>Total Expenses</b>	<b>(785)</b>	<b>(785)</b>
<b>Share of Loss in Equity Accounted Investment</b>	<b>(2)</b>	<b>(2)</b>
<b>Profit Before Tax</b>	<b>62,910</b>	<b>62,910</b>
<b>Income Tax (Expense) / Benefit</b>	<b>(2)</b>	<b>(2)</b>
<b>Profit After Tax</b>	<b>62,908</b>	<b>62,908</b>
<b>Basic Earnings per Share (\$ per share)**</b>	<b>1.34</b>	<b>3.68</b>
<b>Diluted Earnings per Share (\$ per share)**</b>	<b>1.34</b>	<b>3.68</b>

\* Included within this amount is the revaluation income from the Asset Call Option of S\$57.8 million. This income was recognised prior to the listing of BBSFF and therefore was not included in the Prospectus forecast.

\*\* The weighted average number of shares used in the Earnings per Share calculations has been calculated from 24 April 2006, the date of incorporation of BBSFF, to 31 December 2006. Had the weighted average number of shares been calculated from 20 December 2006, the date of listing on the SGX-ST, the Basic Earnings per Share would be \$0.01 and the Diluted Earnings per Share would be \$0.01.

**BALANCE SHEET**

	Group As at 31 December 2006 S\$'000 Unaudited	Company As at 31 December 2006 S\$'000 Unaudited
<b>Assets</b>		
Cash and Cash Equivalents	64,953	400
Available for Sale Financial Assets	123,728	-
Loans and Receivables	148,866	-
Guarantee Fees Receivable	7,659	-
Aircrafts	45,551	-
Investments in subsidiaries	-	355,099
Investment in Equity Accounted Investment	48,953	-
Deferred Tax Assets	1	-
Other Assets	1,587	1,515
<b>Total Assets</b>	<b>441,298</b>	<b>357,014</b>
<b>Liabilities</b>		
Guarantee Fees Payable and other Payables	9,748	533
Interest Bearing Liabilities	127,737	41
Deferred Tax Liabilities	3	-
<b>Total Liabilities</b>	<b>137,488</b>	<b>574</b>
<b>Net Assets attributable to Shareholders</b>	<b>303,810</b>	<b>356,440</b>
<b>Shareholders Equity</b>	<b>303,810</b>	<b>356,440</b>
Net Assets per Share (\$ per share)	0.85	0.99
Net Tangible Assets per Share (\$ per share)	0.85	0.99

**STATEMENT OF CASH FLOWS**

	Group for the quarter ended 31 December 2006 S\$'000	Group for the period ended 31 December 2006 S\$'000
<b>Cash flows from operating activities</b>		
Interest Income	10	10
Interest Expense	(1)	(1)
<b>Net cash inflow from operating activities</b>	<b>9</b>	<b>9</b>
<b>Cash flows from investing activities</b>		
Acquisition of subsidiary	113,005	113,005
Investment in Class A membership interest in BBRNA	(49,166)	(49,166)
Purchase of financial assets	(8,733)	(8,733)
Loan repayments received	2,030	2,030
<b>Net cash inflow from investing activities</b>	<b>57,136</b>	<b>57,136</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	6,158	6,158
Borrowing costs paid	(4)	(4)
<b>Net cash inflow from financing activities</b>	<b>6,154</b>	<b>6,154</b>
<b>Net increase in cash and cash equivalents</b>	<b>63,299</b>	<b>63,299</b>
Cash and cash equivalents at beginning of period	-	-
Effects of exchange rate changes on cash and cash equivalents	1,654	1,654
<b>Cash and cash equivalents at 31 December 2006</b>	<b>64,953</b>	<b>64,953</b>

**Non cash financing activity**

On the Listing Date, Babcock & Brown BBSFF Holdings Limited subscribed for 302,152,227 BBSFF shares at S\$1.01 per share (rounded to two decimal places). The receivable to BBSFF was settled on the Listing Date by the transfer to BBSFF of the ownership of the assets in the Warehouse Vehicle.

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

Changes in Shareholders Equity of the Company from date of Incorporation to 31 December 2006	Share Capital and Reserves S\$'000	Retained Earnings S\$'000	Translation Reserves S\$'000	Total \$'000
<b>Balance as at 24 April 2006</b>	-	-	-	-
Profit for the period	-	58,895	-	<b>58,895</b>
Foreign currency translation reserve	-	-	(7,027)	<b>(7,027)</b>
Total recognised income for the period	-	58,895	(7,027)	<b>51,868</b>
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	304,772	-	-	<b>304,772</b>
Dividend for the period	-	(57,745)	-	<b>(57,745)</b>
Issue of share capital – Reinvestment of dividend	57,745	-	-	<b>57,745</b>
Listing costs	(200)	-	-	<b>(200)</b>
<b>Balance as at 31 December 2006</b>	<b>362,317</b>	<b>1,150</b>	<b>(7,027)</b>	<b>356,440</b>

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

Changes in Shareholders Equity of the Company from 01 October 2006 to 31 December 2006	Share Capital and Reserves S\$'000	Retained Earnings S\$'000	Translation Reserves S\$'000	Total \$'000
<b>Balance as at 01 October 2006</b>	-	-	-	-
Profit for the period	-	58,895	-	<b>58,895</b>
Foreign currency translation reserve	-	-	(7,027)	<b>(7,027)</b>
Total recognised income for the period	-	58,895	(7,027)	<b>51,868</b>
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	304,772	-	-	<b>304,772</b>
Dividend for the period	-	(57,745)	-	<b>(57,745)</b>
Issue of share capital – Reinvestment of dividend	57,745	-	-	<b>57,745</b>
Listing costs	(200)	-	-	<b>(200)</b>
<b>Balance as at 31 December 2006</b>	<b>362,317</b>	<b>1,150</b>	<b>(7,027)</b>	<b>356,440</b>

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

Changes in Shareholders Equity of the Group from date of incorporation to 31 December 2006	Share Capital and Reserves S\$'000	Retained Earnings S\$'000	Translation Reserves S\$'000	Total \$'000
<b>Balance as at 24 April 2006</b>	-	-	-	-
Profit for the period	-	62,908	-	<b>62,908</b>
Consolidation reserve	(57,745)	-	-	<b>(57,745)</b>
Foreign currency translation reserve	-	-	(5,925)	<b>(5,925)</b>
Total recognised income for the period	(57,745)	62,908	(5,925)	<b>(762)</b>
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	304,772	-	-	<b>304,772</b>
Dividend for the period	-	(57,745)	-	<b>(57,745)</b>
Issue of share capital – Reinvestment of dividend	57,745	-	-	<b>57,745</b>
Listing costs	(200)	-	-	<b>(200)</b>
<b>Balance as at 31 December 2006</b>	<b>304,572</b>	<b>5,163</b>	<b>(5,925)</b>	<b>303,810</b>

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

Changes in Shareholders Equity of the Group from 01 October 2006 to 31 December 2006	Share Capital and Reserves S\$'000	Retained Earnings S\$'000	Translation Reserves S\$'000	Total \$'000
<b>Balance as at 01 October 2006</b>	-	-	-	-
Profit for the period	-	62,908	-	<b>62,908</b>
Consolidation reserve	(57,745)	-	-	<b>(57,745)</b>
Foreign currency translation reserve	-	-	(5,925)	<b>(5,925)</b>
Total recognised income for the period	(57,745)	62,908	(5,925)	<b>(762)</b>
Transactions with equity holders in their capacity as equity holders:				
Issue of share capital	304,772	-	-	<b>304,772</b>
Dividend for the period	-	(57,745)	-	<b>(57,745)</b>
Issue of share capital – Reinvestment of dividend	57,745	-	-	<b>57,745</b>
Listing costs	(200)	-	-	<b>(200)</b>
<b>Balance as at 31 December 2006</b>	<b>304,572</b>	<b>5,163</b>	<b>(5,925)</b>	<b>303,810</b>

**NET ASSET VALUE**

	<b>Group As at 31 December 2006 \$'000 Unaudited</b>	<b>Group As at 30 September 2006 \$'000 Unaudited</b>	<b>Company As at 31 December 2006 \$'000 Unaudited</b>	<b>Company As at 30 September 2006 \$'000 Unaudited</b>
<b>Net Asset Value</b>				
Total net asset value (\$'000)	303,810	-	356,440	-
Total number of ordinary shares on issue used in calculation of net asset value per share ('000)	359,401	-	359,401	-
Net asset value per ordinary share (\$ per share)	0.85	1.00	0.99	1.00

## EARNINGS PER SHARE

	<b>Group Quarter ended 31 December 2006 Unaudited</b>	<b>Group Period to 31 December 2006 Unaudited</b>
<b>Basic Earnings per Share*</b>		
Earnings used in calculation of basic earnings per share (\$'000)	62,908	62,908
Weighted average number of shares on issue used in calculation of basic earnings per share ('000)	46,878	17,114
Basic earnings per share (\$ per share)	1.34	3.68
<b>Diluted Earnings per Share*</b>		
Diluted earnings used in calculation of diluted earnings per share (\$'000)	62,908	62,908
Weighted average number of shares on issue used in calculation of diluted earnings per share ('000)	46,878	17,114
Diluted earnings per share (\$ per share)	1.34	3.68

\*The weighted average number of shares used in the Period to Date Earnings per Share calculations has been calculated from 24 April 2006, the date of incorporation of BBSFF, to 31 December 2006. Had the weighted average number of shares been calculated for the period 20 December 2006, the date of the IPO on the SGX-ST to 31 December 2006 the Basic Earnings per Share would be \$0.01 and the Diluted Earnings per Share would be \$0.01.

In future periods, shares may be issued to the Manager in lieu of management fees otherwise payable in cash. This will impact the Diluted Earnings per Share calculation once the number of shares to be issued is known.

## INTEREST BEARING LIABILITIES

	<b>Group</b>
	<b>As at</b>
	<b>31 December 2006</b>
	<b>\$'000</b>
Amount repayable in one year or less, or on demand	99,568
Amount repayable after one year	28,169
<b>Total interest bearing liabilities</b>	<b>127,737</b>
Amount secured	127,737
Amount unsecured	-
<b>Total interest bearing liabilities</b>	<b>127,737</b>

## SEGMENT REPORTING

The principal activity of the Group during the period was the investment in diversified structured finance assets around the world. The primary basis of segment reporting is geographical. At 31 December 2006, the Group had investments in the following geographical segments:

	UK and Europe S\$'000	United States S\$'000	Australia S\$'000	Total S\$'000
<b>Geographical segments</b>				
<b>Period to 31 December 2006</b>				
Revenue from continuing activities	1,309	1,027	3,497	5,833
Segment profit from continuing activities before tax	1,309	921	3,154	5,384
Unallocated revenue	-	-	-	57,865 *
Unallocated expenses	-	-	-	(339)
Net profit from continuing activities before income tax				62,910
<b>Other segment items</b>				
Capital expenditure – property, plant and equipment	-	-	-	-
Depreciation	-	44	-	44
Other non-cash expenses	-	60	339	399
<b>As at 31 December 2006</b>				
Segment assets	38,544	232,678	169,566	440,788
Unallocated assets	-	-	-	510
<b>Consolidated total assets</b>				<b>441,298</b>
Segment liabilities	-	29,912	107,043	136,955
Unallocated liabilities	-	-	-	533
<b>Consolidated total liabilities</b>				<b>137,488</b>

\* This amount primarily relates to the revaluation of the Asset Call Option and is not attributable to any one geographical segment and therefore has been shown as unallocated revenue.

## BREAKDOWN OF REVENUE

	<b>Group S\$'000</b>
<b>Financial period from date of incorporation to 30 June 2006 (unaudited)</b>	
Total revenue for the financial period from date of incorporation to 30 June 2006	-
Operating profit after tax for the financial period from the date of incorporation to 30 June 2006	-
<b>Financial period from 1 July to 31 December 2006 (unaudited)</b>	
Total revenue for the financial period from 1 July 2006 to 31 December 2006	63,697
Operating profit after tax for the financial period from 1 July 2006 to 31 December 2006	62,908
<b>Financial period from date of incorporation to 31 December 2006 (unaudited)</b>	
Total revenue for the financial period from date of incorporation to 31 December 2006	63,697
Operating profit after tax for the financial period from date of incorporation to 31 December 2006	62,908