

**T2 Income Fund Limited**

**Consolidated and Company Annual Report and  
Audited Financial Statements  
For the year ended 31 December 2006**

**T2 Income Fund Limited**  
**For the year ended 31 December 2006**

**CONTENTS**

	<b>Page</b>
Officers and Professional Advisers	3
Chairman's Statement	4
Directors' Report	5
Report of the Independent Auditor	6
Income Statement	7
Consolidated Balance Sheet	8
Company Balance Sheet	9
Statement of Changes in Shareholders' Equity	10
Statement of Cashflows	11
Notes to the Financial Statements	12 - 21
Portfolio Statement of the Group	22
Statement of significant investment purchases and sales of the Group	23

**T2 Income Fund Limited**  
**For the year ended 31 December 2006**

**OFFICERS AND PROFESSIONAL ADVISERS**

**Directors:** William Harley Tozier (Non - Executive Chairman)  
Frederick Peter Forni (Non - Executive Director)  
Patrick Anthony Seymour Firth (Non - Executive Director)  
Saul Barak Rosenthal (Non - Independent Director)  
Patrick Francis Conroy (Non-Independent Director)

The address of the Directors is the registered office.

**Investment Manager:** T2 Advisers, LLC  
8 Sound Shore Drive, Suite 255  
Greenwich  
Connecticut 06830  
United States

**Broker:** JPMorgan Cazenove Limited  
20 Moorgate  
London EC2R 6DA  
United Kingdom

**Administrator:** Butterfield Fund Services (Guernsey) Limited  
P.O. Box 211  
Regency Court  
Glategny Esplanade  
St Peter Port  
Guernsey  
GY1 3NQ  
Channel Islands

**Custodian:** Butterfield Bank (Guernsey) Limited  
P.O.Box 25  
Regency Court  
Glategny Esplanade  
St Peter Port  
Guernsey  
GY1 3AP  
Channel Islands

**Auditors:** Grant Thornton UK LLP  
Grant Thornton House  
Melton Street  
London NW1 2EP  
United Kingdom

**Nominated adviser:** Grant Thornton UK LLP  
Grant Thornton House  
Melton Street  
London NW1 2EP  
United Kingdom

**Legal Advisers:**  
**In the Channel Islands:** Collas Day Advocates  
Manor Place  
St Peter Port  
Guernsey, GY1 4EW  
Channel Islands

**In the UK:** Freshfields Bruckhaus Deringer  
65 Fleet Street  
London EC4Y 1HS  
United Kingdom

**Registered office:** Regency Court  
Glategny Esplanade  
St Peter Port  
Guernsey  
GY1 3NQ

## T2 Income Fund Limited

### For the year ended 31 December 2006

#### CHAIRMAN'S STATEMENT

Attached please find the Report and Accounts of T2 Income Fund Limited (the "Company") for the one year period ending 31 December 2006.

As you are aware, the Company was launched in August 2005 when it raised net proceeds of £36.7 million of equity. As of 31 December 2006, the Company had invested assets of approximately £54 million. I am pleased to report that as of 31 March 2007, the Company has invested assets of approximately £83.6 million. This means that the Company is fully invested and has begun to leverage its assets to make new investments.

As of 31 December 2006, the investments in the portfolio, on a weighted average basis, bear an interest rate of 10.4%, which is more than 500 basis points over LIBOR.

In February 2007 the Directors of the Company increased the dividend to 2.0p per share for the fourth quarter ending 31 December 2006. This dividend was paid in February 2007. On 27 March 2007 the Directors declared a dividend of 2.5p per share in relation to the first quarter of 2007. This brings the total dividends paid and declared from the period of inception in August 2005 through 31 March 2007 to 7.0p per share.

The Company's dividend history is:

<u>Month paid</u>	<u>Dividend per share</u>	<u>For period ended</u>
July 2006	1.0p	30 June 2006
Oct. 2006	1.5p	30 September 2006
Feb. 2007	2.0p	31 December 2006
May 2007	2.5p	31 March 2007
Total	7.0p	

On 25 October 2006 the Company established a credit facility of up to US\$200 million with Merrill Lynch Capital Corporation. Through a newly formed special purpose entity, Merrill Lynch has made this credit facility available for the purpose of making new investments. The credit facility bears interest at LIBOR plus 50 basis points. As of 31 December 2006, the Company had drawn £22.4 million under the facility and as of 31 March 2007, the Company had drawn £56.3 million under the facility.

With the establishment of this credit facility, the Company has been able to accelerate its rate of deploying capital. During the fourth quarter of 2006 the Company made approximately £22.4 million of new investments. During the first quarter of 2007 the Company deployed approximately £40.2 million of additional capital for new investments.

T2 Advisers, the Company's Investment Manager, believes that the current environment for providing investment capital affords it a positive outlook going forward.

The Directors are pleased with the progress that the Investment Manager has made on behalf of the Company and share the Investment Manager's enthusiasm with regard to the Company's prospects.

With the Company now fully invested, generating a strong yield on its portfolio and having the capability to leverage its investments and its returns, we are looking forward to achieving greater operating scale and continuing to enhance Shareholder returns.

William Harley Tozier  
Chairman

## T2 Income Fund Limited For the year ended 31 December 2006

### DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2006.

#### Principal activities

T2 Income Fund Limited (the "Company") is a closed-ended investment company which was incorporated with limited liability in Guernsey on 9 June 2005 in accordance with The Companies (Guernsey) Law, 1994. The Company was admitted to the Alternative Investment Market of the London Stock Exchange (AIM) on 5 August 2005.

A new Cayman Islands registered subsidiary company, T2 Income Fund CLO I Ltd, was created on 11 October 2006. Through its ownership of 100% of the preferred shares of T2 Income Fund CLO I Ltd the Directors consider the CLO to be a wholly owned subsidiary and the operating results are consolidated in these financial statements.

The Company and its subsidiary (together "the Group") will primarily invest in the debt and equity securities of small to medium sized companies to maximize its portfolio's return.

The Group will seek to achieve a high level of current income by investing in debt securities, consisting primarily of senior debt across multiple industries.

The Group intends to invest primarily in companies located in the United States, Europe and the United Kingdom. The Group will target companies with attractive fundamental characteristics including experienced management, a significant financial or strategic sponsor or partner, a strong competitive position and positive cash flow.

#### Results and dividends

The Group results for the year are set out on page 7. Dividends of £950,000 were paid during the year (2005: nil).

On 31 January 2007 a dividend of £760,000 (2p per share), relating to the year ended 31 December 2006, was approved. This dividend was paid to shareholders on 23 February 2007, with an ex dividend date of 7 February 2007. On 27 March 2007 a dividend of £950,000 (2.5p per share), relating to the period 1 January 2007 to 31 March 2007, was announced with a payment date of 10 May 2007.

#### Statement of directors' responsibilities

The Directors are responsible for preparing the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, for each financial period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss for that period in accordance with The Companies (Guernsey) Law, 1994. In preparing these financial statements, the Directors are required to:

- \* select suitable accounting policies and apply them consistently;
- \* make judgements and estimates that are reasonable and prudent;
- \* state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- \* prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware:

- \* there is no relevant audit information of which the Company's auditors are unaware; and
- \* the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

#### Auditors

A resolution for the reappointment of Grant Thornton UK LLP will be proposed at the forthcoming Annual General Meeting.

Approved on behalf of the board of directors on 16 April 2007.

Saul Barak Rosenthal  
Director

Patrick Francis Conroy  
Director

## **REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF T2 INCOME FUND LIMITED**

We have audited the group and parent company financial statements (the "financial statements") of T2 Income Fund Limited for the year ended 31 December 2006 which comprise the Consolidated and Company Income statements, the Consolidated balance sheet, the Company balance sheet, the Statement of changes in shareholders' equity, the Statement of cash flows and notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 64 of The Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable Guernsey law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994 and whether the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Directors' Report, the Portfolio Statement of the Group and the Statement of Significant Purchases and Sales of the Group. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's and the parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 1994; and
- the information given in the Directors' Report is consistent with the financial statements for the year ended 31 December 2006.

GRANT THORNTON UK LLP  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS  
LONDON  
Date: 16 April 2007

**T2 Income Fund Limited**  
**For the year ended 31 December 2006**

**CONSOLIDATED AND COMPANY INCOME STATEMENTS**

	Notes	Group Year to 31 December 2006 GBP	Company Year to 31 December 2006 GBP	Group and Company Period to 31 December 2005 GBP
<b>Revenue</b>				
Interest income	2	2,950,030	2,676,375	648,866
Other income	2	36,814	36,814	46,978
<b>Investment Income</b>				
(Loss)/gain on financial assets and liabilities at fair value through profit or loss	5			
- Realised		(248,633)	(248,633)	-
- Unrealised		(1,835,169)	(1,630,983)	33,384
Gain on foreign currency transactions				
- Realised		295,151	295,151	-
- Unrealised		129,740	129,740	-
<b>Total Income</b>		<b>1,327,933</b>	<b>1,258,464</b>	<b>729,228</b>
<b>Expenses</b>				
Management fees	4	298,751	298,751	300,967
Administration and secretarial fees	4	40,000	40,000	16,329
Custodian fees	4	15,000	15,000	6,123
Legal and professional fees		25,455	25,455	9,167
Directors' remuneration	4	65,000	65,000	36,418
Directors' and officers' insurance		43,485	43,485	17,054
Audit fees		39,001	39,001	15,000
Share issue expenses	2(g)	-	-	68,801
Finance costs	4	104,215	-	-
Other expenses		200,502	199,827	57,413
<b>Total Expenses</b>		<b>831,409</b>	<b>726,519</b>	<b>527,272</b>
<b>Profit for the year/period</b>		<b>496,524</b>	<b>531,945</b>	<b>201,956</b>
Basic earnings per share	14	0.0131	0.0140	0.0053
Diluted earnings per share	14	0.0118	0.0126	0.0048

The accompanying notes on pages 12 to 21 form an integral part of these financial statements.

T2 Income Fund Limited

As at 31 December 2006

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2006 GBP	31 December 2005 GBP
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets at fair value through the profit or loss account	5	53,978,368	5,887,644
Note receivable	7	500,000	-
		<u>54,478,368</u>	<u>5,887,644</u>
<b>Current assets</b>			
Trade and other receivables	7	610,946	40,440
Cash and cash equivalents	8	4,929,513	35,694,293
		<u>5,540,459</u>	<u>35,734,733</u>
<b>Total assets</b>		<u><b>60,018,827</b></u>	<u><b>41,622,377</b></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share premium	10	36,694,149	36,694,149
Other reserve		14,167	4,167
Foreign exchange reserve		35,421	-
Retained earnings		(251,520)	201,956
<b>Total equity</b>		<u><b>36,492,217</b></u>	<u><b>36,900,272</b></u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Warehouse facility	9	22,374,308	-
<b>Current liabilities</b>			
Trade and other payables	9	1,152,302	4,722,105
<b>Total liabilities</b>		<u>23,526,610</u>	<u>4,722,105</u>
<b>Total equity and liabilities</b>		<u><b>60,018,827</b></u>	<u><b>41,622,377</b></u>
Net Asset Value per Share		<u>£0.96</u>	<u>£0.97</u>

The financial statements were approved by the Board of Directors on 16 April 2007 and were signed on its behalf by:

Saul Barak Rosenthal  
Director

Patrick Francis Conroy  
Director

The accompanying notes on pages 12 to 21 form an integral part of these financial statements.



T2 Income Fund Limited  
As at 31 December 2006

COMPANY BALANCE SHEET

	Notes	31 December 2006 GBP	31 December 2005 GBP
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets at fair value through the profit or loss account	5	26,401,578	5,887,644
Investment in subsidiary	6	6,322,726	-
Note receivable	7	500,000	-
		<u>33,224,304</u>	<u>5,887,644</u>
<b>Current assets</b>			
Trade and other receivables	7	478,540	40,440
Cash and cash equivalents	8	3,854,472	35,694,293
		<u>4,333,012</u>	<u>35,734,733</u>
<b>Total assets</b>		<u><b>37,557,316</b></u>	<u><b>41,622,377</b></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share premium	10	36,694,149	36,694,149
Other reserve		14,167	4,167
Retained earnings		(216,099)	201,956
<b>Total equity</b>		<u><b>36,492,217</b></u>	<u><b>36,900,272</b></u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	9	1,065,099	4,722,105
<b>Total liabilities</b>		<u>1,065,099</u>	<u>4,722,105</u>
<b>Total equity and liabilities</b>		<u><b>37,557,316</b></u>	<u><b>41,622,377</b></u>
Net Asset Value per Share		<u>£0.96</u>	<u>£0.97</u>

The financial statements were approved by the Board of Directors on 16 April 2007 and were signed on its behalf by:

Saul Barak Rosenthal  
Director

Patrick Francis Conroy  
Director

The accompanying notes on pages 12 to 21 form an integral part of these financial statements.

T2 Income Fund Limited  
For the year ended 31 December 2006

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Group	Note	Share Capital GBP	Share Premium GBP	Other Reserve GBP	Foreign exchange Reserve GBP	Retained Earnings GBP	Total Equity GBP
Proceeds from preferred ordinary shares issued	10	-	38,000,000	-	-	-	38,000,000
Set-up fees in relation to issue of shares		-	(1,305,851)	-	-	-	(1,305,851)
Profit for the period		-	-	-	-	201,956	201,956
Amortisation of fair value of options		-	-	4,167	-	-	4,167
<b>Balance at 31 December 2005</b>		-	36,694,149	4,167	-	201,956	36,900,272
Profit for the year		-	-	-	-	496,524	496,524
Foreign exchange on consolidation		-	-	-	35,421	-	35,421
Total income & expense for the year		-	-	-	35,421	496,524	531,945
Amortisation of fair value of options		-	-	10,000	-	-	10,000
Dividends paid		-	-	-	-	(950,000)	(950,000)
<b>Balance at 31 December 2006</b>		-	36,694,149	14,167	35,421	(251,520)	36,492,217

Company	Note	Share Capital GBP	Share Premium GBP	Other Reserve GBP	Foreign exchange Reserve GBP	Retained Earnings GBP	Total Equity GBP
Proceeds from preferred ordinary shares issued	10	-	38,000,000	-	-	-	38,000,000
Set-up fees in relation to issue of shares		-	(1,305,851)	-	-	-	(1,305,851)
Profit for the period		-	-	-	-	201,956	201,956
Amortisation of fair value of options		-	-	4,167	-	-	4,167
<b>Balance at 31 December 2005</b>		-	36,694,149	4,167	-	201,956	36,900,272
Profit for the year		-	-	-	-	531,945	531,945
Total income & expense for the year		-	-	-	-	531,945	531,945
Amortisation of fair value of options		-	-	10,000	-	-	10,000
Dividends paid		-	-	-	-	(950,000)	(950,000)
<b>Balance at 31 December 2006</b>		-	36,694,149	14,167	-	(216,099)	36,492,217

During the year the Company made two dividend payments. On 17 July 2006 the Company paid a dividend of 1p per ordinary share (£380,000) for the period to 30 June 2006. On 23 October 2006 the Company paid a dividend of 1.5p per ordinary share (£570,000) for the period to 30 September 2006.

The accompanying notes on pages 12 to 21 form an integral part of these financial statements.

T2 Income Fund Limited  
For the year ended 31 December 2006

STATEMENT OF CASHFLOWS

	Notes	Group 31 December 2006 GBP	Company 31 December 2006 GBP	Group and Company 31 December 2005 GBP
<b>Cash flows from operating activities</b>				
Cash generated from operations	11	(2,014,562)	(2,173,545)	156,573
<b>Net cash (outflow)/inflow from operating activities</b>		<u>(2,014,562)</u>	<u>(2,173,545)</u>	<u>156,573</u>
<b>Cashflows from investing activities</b>				
Purchase of investments		(59,465,371)	(41,570,229)	(1,156,429)
Sale of investments		8,307,610	8,307,610	-
Payment to subsidiary		-	(3,081,460)	-
Receipt from subsidiary		-	6,921,988	-
Principal received		983,235	705,815	-
<b>Net cash outflow from investing activities</b>		<u>(50,174,526)</u>	<u>(28,716,276)</u>	<u>(1,156,429)</u>
<b>Cashflows from financing activities</b>				
Proceeds from issue of shares		-	-	38,000,000
Set-up fees paid		-	-	(1,305,851)
Warehouse facility		22,374,308	-	-
Dividends paid		(950,000)	(950,000)	-
<b>Net cash inflow/(outflow) from financing activities</b>		<u>21,424,308</u>	<u>(950,000)</u>	<u>36,694,149</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(30,764,780)</u>	<u>(31,839,821)</u>	<u>35,694,293</u>
Cash and cash equivalents at beginning of year/period		35,694,293	35,694,293	-
<b>Cash and cash equivalents at end of year/period</b>		<u><u>4,929,513</u></u>	<u><u>3,854,472</u></u>	<u><u>35,694,293</u></u>

The accompanying notes on pages 12 to 21 form an integral part of these financial statements.

## T2 Income Fund Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

#### 1. GENERAL INFORMATION

T2 Income Fund Limited (the "Company") was incorporated and domiciled in Guernsey, Channel Islands, as a company limited by shares on 9 June 2005. The address of the registered office is Regency Court, Gategny Esplanade, St Peter Port, Guernsey, Channel Islands, GY1 3NQ.

A new Cayman Islands registered subsidiary company, T2 Income Fund CLO I Ltd., was created on 11 October 2006. Through its ownership of 100% of the preferred shares of T2 Income Fund CLO I Ltd the Directors consider the CLO to be a wholly owned subsidiary and the operating results are consolidated in these financial statements.

#### 2. ACCOUNTING POLICIES

##### (a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and all applicable requirements of Guernsey Company Law. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investments at fair value through the Income Statement.

##### (b) Basis of consolidation

The consolidated financial statements comprise the financial statements of T2 Income Fund Limited and its subsidiary T2 Income Fund CLO I Ltd. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated.

##### (c) Foreign currency translation

###### (i) *Functional and presentation currency*

The Financial Statements of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The Directors have considered the primary economic currency of the Company and considered the currency in which the original finance was raised, distributions made, and ultimately what currency would be returned on a break up basis. The Directors have also considered the currency to which the underlying investments are exposed. On balance, the Directors believe Sterling best represents the functional currency of the Company and Dollars the functional currency of the subsidiary. Therefore the books and records are maintained in Sterling and Dollars respectively and for the purpose of the financial statements the results and financial position of the Group are presented in Sterling, which is the presentation currency of the Group.

###### (ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items are reported as part of the fair value gain or loss reported in the Income Statement.

###### (iii) *Subsidiary company*

The results and financial position of the subsidiary entity that has a functional currency different to the presentation currency is translated into the presentation currency as follows:

1. assets and liabilities of the balance sheet presented are translated at the closing rate at the date of the balance sheet;
2. income and expenses for the income statement are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
3. all resulting exchange differences are recognised as a separate component of shareholders' equity.

## T2 Income Fund Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

#### 2. ACCOUNTING POLICIES (Continued)

##### (d) Revenue recognition

Revenue is recognised as follows:

Interest income - recognised on an accruals basis as this relates to bank interest income and coupon interest.

Other income - relates to closing fees which are recognised when they fall due.

##### (e) Expenditure

All expenses are accounted for on an accruals basis. The management fees, administration fees, finance costs and all other expenses (excluding set up expenses which were offset against share premium) are charged through the income statement.

##### (f) Taxation

The Company is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. A fixed annual fee of £600 is payable to the States of Guernsey in respect of this exemption.

##### (g) Share issue expenses

Share issue expenses of an equity transaction are accounted for as a deduction from equity (net of any income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

##### (h) Dividends

Dividend distributions to the Group's shareholders are recognised in the Group's financial statements in the period in which the dividends are paid.

##### (i) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments and bank overdrafts.

##### (j) Trade and other receivables

Receivables are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition or origination. They are subsequently measured at amortised cost.

##### (k) Trade and other payables

Payables are recognised initially at fair value and subsequently stated at amortised cost.

##### (l) Investments

###### (i) Financial assets and liabilities at fair value through profit or loss

Purchases and sales of all investments are recognised on trade date - the date on which the Group acquires or disposes of the economic benefits of the asset. All investments are initially recognised at fair value, and transaction costs for all financial assets and financial liabilities carried at fair value through profit or loss are expensed as incurred. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Group has transferred substantially all risks and rewards of ownership.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. Valuation techniques used include the use of comparable recent arm's length transactions.

For broadly syndicated loans T2 receives market quotes from agent banks on a quarterly basis. This information is reviewed by T2 management and used to price the portfolio companies.

For bi-lateral loans, Houlihan Lokey, an independent third party, performs portfolio company evaluations. As part of Houlihan Lokey's due diligence they review the following:

- Audited and/or unaudited historical financial information including the most recent fiscal year.
- Financial information for the most current period available.
- Financial forecast prepared by the Portfolio Company.
- Most current capitalisation table.

## T2 Income Fund Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

#### 2. ACCOUNTING POLICIES(continued)

##### (l) Investments (continued)

###### (i) Financial assets and liabilities at fair value through profit or loss (continued)

- T2 investment Committee Memorandum prepared prior to the date of investment.
- Documents relating to business operations, financial performance and corporate planning.
- Public filings by the Portfolio Companies.

In assessing the fair value of each investment, Houlihan Lockey reviews the following:

- Recent financial performance including cash flow and profitability on an actual basis compared to plan.
- Funding history of the company, the implied valuation from the most recent funding and anticipated future funding transactions.
- Company's capital structure.
- Recent business events disclosed by the Company.
- Potential requirement for additional funding.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the income statement in the period in which they arise.

##### (ii) Subsidiary

Investment in subsidiary is initially recorded at cost. After initial recognition, the investment in subsidiary is measured at fair value, with movements in the unrealised gains and losses recognised in the Company Income Statement. Through its ownership of 100% of the preferred shares of T2 Income Fund CLO I Ltd the Directors consider the CLO to be a wholly owned subsidiary and the operating results are consolidated in these financial statements.

##### (m) Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company also makes assumptions on the classification of financial assets.

##### *Unlisted Debt Securities*

The Group can invest in financial instruments which are not quoted in active markets. Fair values are determined by using valuation techniques. Where valuation techniques, such as the Market Capitalization Approach, are used to determine fair values they are carried out by an independent valuation firm specifically engaged by the Group to carry out the valuations. Changes in assumptions could affect the reported fair value of financial instruments.

##### (n) New standards

New standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the Group has not early adopted:

The Group has not early adopted the new standard IFRS 7 (Financial Instruments: Disclosure), therefore no additional disclosures have been made.

The Group has not early adopted the new standard IFRS 8 (Operating Segments), therefore no additional disclosures have been made.

##### (o) Share based payments

Share options are valued in accordance with IFRS2 on an estimate of the fair value of the services received.

#### 3. FINANCIAL RISK MANAGEMENT

##### (1) Financial risk factors

The Group is exposed to interest rate risk, credit risk, liquidity risk and currency risk arising from the financial instruments it holds. The risk management policies employed by the Group to manage these risks are discussed below. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

## T2 Income Fund Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

#### 3. FINANCIAL RISK MANAGEMENT (continued)

##### (a) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group will have exposure to interest rate risk if the Board determines that the Group should borrow to fund future investments. The exposure arises on the difference between the rate of interest the Group is required to pay on borrowed funds and the rate of interest which it receives on the debt securities in which it invests.

The Group is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Company's cash balances, warehouse facility and debt instruments are open to interest rate risk.

The Group may, but is not required to, hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts.

##### (b) Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Group invests primarily in senior debt, senior subordinated debt and junior subordinated debt. The maximum investment size, at the time of the investment, will generally be limited to 15% of the Group's Gross Assets. However, the Group may make larger investments and it may seek to syndicate or sell down a portion of any such investment, after it has been acquired.

The Group has established a credit rating system. The purpose of the rating system is to monitor the credit quality of T2's investment portfolio on both an individual and portfolio basis and the future on-going monitoring required.

##### (c) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. As the Group's investments will not generally be in publicly traded securities, they are likely to be subject to legal and other restrictions on resale or otherwise be less liquid than publicly traded securities. The illiquidity of the Group's investments may make it difficult for them to be sold quickly if the need arises. Since the Group intends to invest in debt securities with a term of up to seven years, and hold investments in debt securities and related equity securities until maturity of the debt, the Group does not expect realisation events to occur in the near term.

##### (d) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group may make investments in currencies other than Sterling. To the extent that it does, the Group will be exposed to a potentially adverse currency risk. Changes in the rate of exchange may affect the value of the Group's investments, and the level of income that it receives from those investments. The Group has entered into currency hedging transactions to minimise this risk (see note 15).

#### 31 December 2006

Assets	USD	EUR	GBP	Total
Financial assets at fair value through p&l	49,060,856	4,917,512	-	53,978,368
Cash and cash equivalents	2,826,963	130,412	1,972,138	4,929,513
Trade and other receivables	574,186	35,675	501,085	1,110,946
Total assets	<u>52,462,005</u>	<u>5,083,599</u>	<u>2,473,223</u>	<u>60,018,827</u>
<b>Liabilities</b>				
Trade and other payables	23,270,769	-	255,841	23,526,610

#### 31 December 2005

Assets	USD	EUR	GBP	Total
Financial assets at fair value through p&l	5,887,644	-	-	5,887,644
Cash and cash equivalents	-	-	35,694,293	35,694,293
Trade and other receivables	31,688	-	8,752	40,440
Total assets	<u>5,919,332</u>	<u>-</u>	<u>35,703,045</u>	<u>41,622,377</u>
<b>Liabilities</b>				
Trade and other payables	4,653,822	-	68,283	4,722,105

## T2 Income Fund Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

#### 3. FINANCIAL RISK MANAGEMENT (continued)

##### (e) Market risk

The Group's exposure to market risk is comprised mainly of movements in the Group's investments. The investment portfolio is managed within parameters disclosed in the Group's offering memorandum.

##### (2) Fair value estimation

The fair values of the Group's short-term trade receivables and payables approximate their carrying amounts at the balance sheet date.

#### 4. FUND EXPENSES

##### Management fee

The Investment Manager, T2 Advisers, LLC, is entitled to receive an annual fee payable quarterly in advance. For the period from the Company's admission to trading on AIM until the quarter end next following six months from the date of admission, the management fee was calculated based on 2% of the initial value of the Company's gross assets upon admission. Thereafter, the management fee is calculated based on 2% of the average value of the Group's gross assets at the end of the two most recently completed quarters.

Total fees charged for the year ended 31 December 2006 amounted to GBP298,751, including the effect of a note receivable from the Investment Manager for GBP500,000 of fees otherwise payable, (2005:GBP300,967). The total amount due and payable at the year end amounted to GBP57,207 (2005:GBP2,150).

##### Administration and secretarial fees

The Administrator and Secretary, Butterfield Fund Services (Guernsey) Limited, is entitled to an annual fee for its services as administrator and secretary, of 0.075% of the Net Asset Value of the Group, calculated on the last business day of each quarter and payable quarterly in arrears. The fee is subject to a minimum of GBP40,000 per annum. They are also due a fixed accounting fee of GBP10,000 per annum plus a fixed fee of GBP5,000 for their registrar services.

Total Administration and secretarial fees (excluding accounting and registrar fees) charged for the year ended 31 December 2006 amounted to GBP40,000 (2005:GBP16,329). The total amount due and payable at the year end amounted to GBP20,000 (2005:GBP10,082).

##### Custodian fees

The Custodian, Butterfield Bank (Guernsey) Limited is entitled to custody fees of 0.02% of the Net Asset Value of the Group subject to a minimum of GBP15,000 per annum. The fee is payable quarterly in arrears.

Total fees charged for the year ended 31 December 2006 amounted to GBP15,000 (2005:GBP6,123). The total amount due and payable at the year end amounted to GBP3,780 (2005:GBP3,781).

##### Directors fees

The current level of fees for the Chairman of the Board of Directors of the Group is GBP25,000 per annum, and GBP20,000 each for non-executive directors.

Total fees charged to the Group for the year ended 31 December 2006 amounted to GBP65,000 (GBP36,418). The total amount due and payable at the year end amounted to GBP16,250 (GBP16,250).

##### Finance costs

Total finance costs for 2006 was GBP104,215. These finance costs are for interest paid to Merrill Lynch for the Warehouse facility. The liability of the warehouse facility as of 31 December 2006 was GBP22,374,308.



## T2 Income Fund Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

#### 5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group 2006 GBP	Company 2006 GBP	Group and Company 2005 GBP
Listed debt securities	8,127,281	6,085,423	1,186,814
Unlisted debt securities	45,851,087	20,316,155	4,700,830
	<u>53,978,368</u>	<u>26,401,578</u>	<u>5,887,644</u>
 (Loss)/Gains recognised in relation to financial assets at fair value through profit or loss			
- realised	(248,633)	(248,633)	-
- unrealised	(1,835,169)	(1,630,983)	33,384
	<u>(2,083,802)</u>	<u>(1,879,616)</u>	<u>33,384</u>

	Group 2006 GBP	Company 2006 GBP	Group and Company 2005 GBP
Opening value of financial assets	5,854,260	5,854,260	-
Purchases	59,465,371	41,570,229	5,854,260
Sales	(8,307,610)	(8,307,610)	-
Realised loss on sale of investments	(248,633)	(248,633)	-
Transfer to subsidiary	-	(10,775,207)	-
Capital repayments	(983,235)	(705,815)	-
Cost of investments at year/period end	<u>55,780,153</u>	<u>27,387,224</u>	<u>5,854,260</u>
Unrealised (loss)/gain at year/period end	(1,801,785)	(985,646)	33,384
Closing value at year/period end	<u>53,978,368</u>	<u>26,401,578</u>	<u>5,887,644</u>

#### 6. INVESTMENT IN SUBSIDIARY

	Company 2006 GBP	Company 2005 GBP
Additions at cost	6,934,680	-
Unrealised loss on net assets transferred to subsidiary	(611,954)	-
Closing fair value of Investment in subsidiary	<u>6,322,726</u>	<u>-</u>

The cost of the investment is represented by the net assets transferred to the subsidiary.

The Company from time to time makes asset transfers between the Company, T2 Income Fund Limited, and the subsidiary, T2 Income Fund CLO I Ltd. The unrealised loss on net assets transferred to subsidiary of GBP611,954 primarily relates to the change in the foreign exchange rates.

## T2 Income Fund Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

#### 7. TRADE AND OTHER RECEIVABLES

	Group 2006	Company 2006	Group and Company 2005
	GBP	GBP	GBP
Accrued bank interest	6,138	6,138	7,541
Loan interest receivable	444,417	312,011	6,683
Prepaid expenses	28,106	28,106	26,216
Unrealised gain on forward exchange contracts	132,285	132,285	-
	<u>610,946</u>	<u>478,540</u>	<u>40,440</u>
<b>Non current assets</b>			
Note receivable	<u>500,000</u>	<u>500,000</u>	<u>-</u>

The GBP500,000 note receivable relates to a promissory note due for payment in 2009 from T2 Advisers, LLC, the Company's Investment Manager. This note, which is subject to certain conditions, was signed on 5 December 2006 and is subject to interest of 8% per annum, compounded annually. The promissory note is recognised in the financial statements as the Directors, having reviewed the conditions pertaining to the promissory note, deem that receipt of payment is virtually certain.

#### 8. CASH AND CASH EQUIVALENTS

	Group 2006	Company 2006	Group and Company 2005
	GBP	GBP	GBP
Call account	4,929,513	3,854,472	5,110,197
Fixed deposit	-	-	30,584,096
	<u>4,929,513</u>	<u>3,854,472</u>	<u>35,694,293</u>

For the purposes of the Cash Flow Statement, the above items represent the year end cash and cash equivalents.

Included within call account balances is an amount held as Collateral by RBC Capital Markets for £1,413,332 (US\$2,768,717) in relation to the forward exchange contracts.

#### 9. TRADE AND OTHER PAYABLES

	Group 2006	Company 2006	Group and Company 2005
	GBP	GBP	GBP
<b>Current liabilities</b>			
Payable for investments	-	-	4,650,853
Due to RBC	896,461	896,461	-
Management fees	57,207	57,207	2,150
Administrator's fees	20,000	20,000	10,082
Custodian's fees	3,780	3,780	3,781
Audit fees	28,500	28,500	15,000
Directors' fees	16,250	16,250	16,250
Finance cost	86,788	-	-
Other accruals	43,316	42,901	23,989
	<u>1,152,302</u>	<u>1,065,099</u>	<u>4,722,105</u>
<b>Non current liabilities</b>			
Warehouse facility	<u>22,374,308</u>	<u>-</u>	<u>-</u>

On 21 November 2006 T2 Income Fund CLO I Ltd entered into a credit and warehouse agreement (the "Agreement") by and among Merrill Lynch Capital Corp., T2 Income Fund CLO I Ltd (as the Issuer), T2 Advisers, LLC (as the Collateral Manager) and T2 Income Fund Limited. The facility amount is US\$200,000,000.

Merrill Lynch provides funding of 80% of the par value of loans assigned to T2 Income Fund CLO I Ltd. Interest due to Merrill Lynch is calculated daily on the total funded amount at 1 month LIBOR plus 50 basis points.

## T2 Income Fund Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

#### 9. TRADE AND OTHER PAYABLES (continued)

Under the terms of the Agreement, the issuer pledged to Merrill Lynch, as security for obligations of the Issuer and the Collateral Manager to Merrill Lynch, and grants to Merrill Lynch a first priority continuing security interest in, lien on and right of sell-off against all of the Issuer's assets including the issuer's right, title and interest in the loans assigned. Such grants were made to Merrill Lynch to secure the payment of all amounts due to Merrill Lynch and compliance by the Issuer with the provision of the Agreement.

#### 10. SHARE CAPITAL

The Company has the power to issue an unlimited number of ordinary shares of no par value.

On incorporation two Ordinary Shares were issued at 100p each to the subscribers to the Memorandum of Association of the Company. On Admission to the AIM on 5 August 2005 the Company repurchased these Ordinary Shares.

On Admission to the AIM on 5 August 2005 the Company allotted 38,000,000 fully paid Ordinary Shares.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds, net of tax.

The Investment manager, T2 Advisers LLC, has been granted options to purchase 4,222,222 Ordinary Shares at the Placing Price, as reduced by dividends paid per share, subject to the Company achieving certain performance criteria as follows:

The Investment manager options will vest and become exercisable in respect of 50 per cent immediately on conclusion of the first three month period during which the Company pays dividends on the Shares in an aggregate amount during that three month period equal to or exceeding 8 per cent of the Initial Offer Price on an annualised basis (the hurdle rate). The remaining 50 per cent will vest and become exercisable immediately on conclusion of the twelve month period following the date specified above.

On 23 February 2007 the hurdle rate was met. Accordingly on 31 March 2007 the options on 2,111,111 of these Ordinary shares became vested. The remaining options for 2,111,111 Ordinary shares are scheduled to vest on 31 March 2008.

In accordance with IFRS2, the value of the options was based upon an estimate of the fair value of the services received. The Company believes that the fair value can be determined by a comparison to a performance-based incentive fee program, which arrangements are common practice in the industry, because the option program was similarly intended to compensate the Investment manager for achieving superior returns. The fair value estimate was based, in good faith, upon the present value of a hypothetical performance-based incentive fee, assuming a fee of 20% of the excess return above an 8% hurdle rate over a ten-year period; the fair value of the options was determined to be £100,000. For the year ending 31 December 2006 the Company charged £10,000 (2005: £4,167) to expenses representing the amortisation of the fair value of the options.

The calculation of fair value is sensitive to a number of assumptions, including the average interest rate on investments, the pace of investment activity, the amount and cost of leverage, if any, and expenses. It should be noted that the actual value of the options may ultimately be substantially greater or less than the fair value calculated. If actual financial performance is significantly better than the assumptions used in the calculation of fair value, the options could be worth several million pounds; to the extent that the performance criteria is not achieved, the options would expire worthless.

#### *Share Capital*

##### *Ordinary shares*

Shares in issue as at 31 December 2006 and 31 December 2005

##### *Share Premium*

Balance at start year/period

Issued during year/period

Set-up fees

Balance at end year/period

	Shares in issue	GBP
	38,000,000	-
	<u>38,000,000</u>	<u>-</u>
	31 December 2006	31 December 2005
	GBP	GBP
	36,694,149	-
	-	38,000,000
	-	(1,305,851)
	<u>36,694,149</u>	<u>36,694,149</u>

## T2 Income Fund Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

#### 11. CASH GENERATED FROM OPERATIONS

	Group 2006 GBP	Company 2006 GBP	Group and Company 2005 GBP
Profit for the year/period	496,524	531,945	201,956
<b>Adjustments for:</b>			
Realised/Unrealised loss/(gain) arising on adjustment to fair value of investments	2,083,802	1,879,616	(33,384)
Amortisation of fair value of options	10,000	10,000	4,167
Foreign exchange on consolidation	35,421	-	-
<b>Changes in working capital:</b>			
Trade and other receivables	(1,070,506)	(938,100)	(87,418)
Trade and other payables	(3,569,803)	(3,657,006)	71,252
Cash inflow from operations	<u>(2,014,562)</u>	<u>(2,173,545)</u>	<u>156,573</u>

#### 12. CONSOLIDATED SUBSIDIARY UNDERTAKING

Through its 100% ownership of preferred shares in T2 Income Fund CLO I Ltd, the Directors consider the following entity as a wholly owned subsidiary of the Company and its results and financial position are included within the consolidated results of the Company.

	Date of incorporation	Country of incorporation	Nature of holding	Percentage holding
T2 Income Fund CLO I Ltd	11 October 2006	Cayman Islands	Direct	100%

#### 13. RELATED PARTY TRANSACTIONS

Saul Rosenthal is a member of BDC Partners which owns T2 Advisers LLC.

Saul Rosenthal and Patrick Conroy are officers of T2 Advisers LLC.

Patrick Firth is a director of the Administrator Butterfield Fund Services (Guernsey) Limited.

The following transactions were carried out with related parties:

	Group 2006 GBP	Company 2006 GBP	Group and Company 2005 GBP
<b><i>Amounts incurred during the year to related parties</i></b>			
Fees due to P Conroy as Chief Financial Officer to the Company	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Fees due to the Investment Manager T2 Advisers, LLC	<u>798,751</u>	<u>798,751</u>	<u>300,967</u>
Fees due from the Investment Manager T2 Advisers, LLC	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>
Fees due to BDC Partners, LLC	<u>28,912</u>	<u>28,912</u>	<u>-</u>
<b><i>Amounts due to related parties</i></b>			
Fees due to P Conroy as Chief Financial Officer to the Company	<u>4,167</u>	<u>4,167</u>	<u>4,167</u>
Fees due to the Investment Manager T2 Advisers, LLC	<u>57,207</u>	<u>57,207</u>	<u>2,150</u>
<b><i>Amounts due from related parties</i></b>			
Fees due from the Investment Manager T2 Advisers, LLC	<u>500,000</u>	<u>500,000</u>	<u>-</u>

The Investment manager has been granted options giving it the right to acquire 4,222,222 Ordinary Shares at the Placing Price (GBP1.00), subject to the Company achieving certain performance criteria. As at 31 December 2006 the criteria had not been met. As of 23 February 2007 the criteria has been met, refer note 10.

#### ***Directors shareholdings in Company***

Saul Rosenthal has a beneficial interest in 1,055,556 (2005:1,055,556) ordinary shares in the Company as at 31 December 2006 related to the share option plan (ref note 10). This is equal to a beneficial interest of 2.5% based on the Share Capital as at that date when diluted by the number of Ordinary Shares subject to the option.

## T2 Income Fund Limited

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

#### 14. EARNINGS PER SHARE

Earnings per share has been calculated by dividing the profit attributable to ordinary share holders GBP496,524 Group, GBP531,945 Company (2005:GBP201,956 Group and Company) by the weighted average number of ordinary shares outstanding during the year 38,000,000 (2005:38,000,000). Fully diluted profit per share has been calculated by dividing the profit attributable to ordinary share holders of GBP496,524 Group, GBP531,945 Company (2005: GBP201,956 Group and Company), by the weighted average number of ordinary shares outstanding during the year adjusted for the effects of all dilutive potential ordinary shares 42,222,222 (2005:42,222,222).

#### 15. COMMITMENTS

At the balance sheet date the following commitments in respect of forward foreign exchange contracts existed:

Contract amount - GBP	Buy	Sell	Unrealised (loss)/profit
7,562,250	EUR	GBP	(17,080)
186,918	EUR	GBP	1,645
186,918	EUR	GBP	1,645
186,918	EUR	GBP	1,645
186,918	EUR	GBP	1,645
25,175,975	USD	GBP	163,213
709,543	USD	GBP	(5,107)
709,543	USD	GBP	(5,107)
709,543	USD	GBP	(5,107)
709,543	USD	GBP	(5,107)

#### 16. POST BALANCE SHEET EVENTS

On 31 January 2007 a dividend of £760,000 (2p per share), relating to the year ended 31 December 2006, was approved. This dividend was paid to shareholders on 23 February 2007, with an ex dividend date of 7 February 2007. On 27 March 2007 a dividend of £950,000 (2.5p per share), relating to the period 1 January 2007 to 31 March 2007, was announced with a payment date of 10 May 2007.

Since the year end the Group has made a number of new investment purchases, these are detailed below:

05/01/07 - US\$7,000,000 - CBA Group  
05/01/07 - US\$2,000,000 - INFONXX  
22/01/07 - US\$2,500,000 - Graceway  
26/01/07 - US\$5,990,000 - Nestaway  
09/02/07 - US\$1,800,000 - Sirsi Corp  
09/02/07 - US\$2,017,333 - National Processing Company  
23/02/07 - US\$5,940,000 - Investools Inc  
07/03/07 - US\$3,003,438 - Investools Inc  
08/03/07 - US\$500,000 - Krispy Kreme  
08/03/07 - US\$8,000,000 - Express Energy Services  
13/03/07 - US\$3,000,000 - Peacock Engineering Co LLC  
14/03/07 - US\$6,100,000 - Nuvox  
15/03/07 - US\$11,984,950 - CavTel Holdings  
23/03/07 - US\$5,079,792 - Paetec Holding Corp  
23/03/07 - US\$5,000,000 - Data Transmission Network DTN  
26/03/07 - US\$9,055,667 - Proquest  
29/03/07 - US\$1,005,000 - Express Energy Services  
30/03/07 - US\$5,025,083 - Ford

## T2 Income Fund Limited

### Portfolio Statement of the Group As at 31 December 2006

	Fair Value GBP	% of net assets
Audatex North America Inc	2,236,113	6.13%
Cavalier Telephone Inc	2,551,002	6.99%
Cavalier Telephone 2 Inc	3,573,252	9.79%
Corel Primary Corp	6,085,423	16.68%
INFONXX Inc	1,533,308	4.20%
Infor Global Solutions Inc	3,077,159	8.43%
Merrill Communications LLC	4,582,695	12.56%
Metrologic instruments Inc	1,540,965	4.22%
Nova	2,694,847	7.38%
NPC Inc	3,065,339	8.40%
One communications Corp	2,185,745	5.99%
Peer 1 Enterprises Inc	3,497,613	9.58%
Prodigy Health Group Inc	4,088,821	11.20%
Stratus Technologies Inc	3,430,322	9.40%
Travelport	3,081,930	8.45%
Versatel Holdings GmbH	2,681,399	7.35%
Workflow Management Inc	2,030,577	5.56%
X-rite Inc	2,041,858	5.61%
	<hr/>	<hr/>
Total financial assets at fair value through profit or loss	53,978,368	147.92%
Cash balances	4,929,513	13.51%
Other net liabilities	(22,415,664)	-61.43%
	<hr/>	<hr/>
Net Assets	<u><u>36,492,217</u></u>	<u><u>100.00%</u></u>

## T2 Income Fund Limited

### Statement of significant investment purchases and sales of the Group For the year ended 31 December 2006

<b>Purchases(at cost)</b>	<b>2006</b>
	GBP
Corel Primary Corp	6,338,651
Merrill Communications LLC	4,594,181
Stratus Technologies Inc	3,872,335
Cavalier Telephone 2 Inc	3,575,255
Infor Enterprise Inc	3,198,374
Travelport	3,190,301
Workflow Management Inc	3,068,697
Prodigy Health Group Inc	3,062,787
Infor Global Solutions Inc	2,733,862
Cavalier Telephone Inc	2,700,853
Nova	2,683,700
Versatel Holdings GmbH	2,681,579
One Communications Corp	2,281,698
Audatex North America Inc	2,257,098
X-Rite Inc	2,184,244
NPC Inc	2,045,857
Infor Global Solutions Inc	2,027,335
Metrologic instruments Inc	1,531,394
INFONXX Inc	1,531,394
Infor Global Solutions Inc	1,060,337
NPC Inc	1,020,929
Prodigy Health Group Inc	1,020,929
FCI International	803,581
	<u>59,465,371</u>

<b>Sales (proceeds)</b>	<b>2006</b>
	GBP
Infor Enterprise Inc	3,081,460
Infor Global Solutions Inc	2,730,446
Corel Primary Corp	1,092,243
FCI International	778,197
Workflow Management Inc	618,573
Cavalier	6,691
	<u>8,307,610</u>