Greenwich Loan Income Fund Limited

# Greenwich Loan Income Fund Limited

## INTERIM REPORT AND UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011

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# OFFICERS AND PROFESSIONAL ADVISERS

| | |
|---|---|
| **Directors:** | Patrick Anthony Seymour Firth (Non-Executive Chairman)<br>Geoffrey Richard Miller (Executive Director)<br>Frederick Peter Forni (Non-Executive Director)<br>James Henry Carthew (Non-Executive Director) *(appointed 17 May 2011)*<br><br>The address of the Directors is the registered office. |
| **Investment Manager:** | T2 Advisers, LLC<br>8 Sound Shore Drive, Suite 255<br>Greenwich<br>Connecticut, 06830<br>United States |
| **Broker:** | Singer Capital Markets<br>1 Hanover Street<br>London, W1S 1YZ<br>United Kingdom |
| **Administrator:** | Praxis Fund Services Limited<br>P.O. Box 296<br>Sarnia House<br>Le Truchot<br>St Peter Port<br>Guernsey, GY1 4NA<br>Channel Islands |
| **Custodian:** | Butterfield Bank (Guernsey) Limited<br>P.O. Box 25<br>Regency Court<br>Glategny Esplanade<br>St Peter Port<br>Guernsey, GY1 3AP<br>Channel Islands |
| **Auditors:** | Grant Thornton Limited<br>PO Box 313, Lefebvre House<br>Lefebvre Street<br>St Peter Port<br>Guernsey, GY1 3TF<br>Channel Islands |
| **Nominated adviser:** | Grant Thornton Corporate Finance<br>30 Finsbury Square<br>London, EC2P 2YU<br>United Kingdom |
| **Legal Advisers:** | *In the Channel Islands:*<br>Mourant Ozannes<br>1 Le Marchant Street<br>St Peter Port<br>Guernsey, GY1 4HP<br>Channel Islands<br><br>*In the UK:*<br>Stephenson Harwood<br>One, St Paul's Churchyard<br>London, EC4M 8SH<br>United Kingdom |
| **Registered office:** | P.O. Box 296<br>Sarnia House<br>Le Truchot<br>St Peter Port<br>Guernsey, GY1 4NA<br>Channel Islands |

# INVESTMENT POLICY

**General**

Greenwich Loan Income Fund Limited (the "Company") has appointed T2 Advisers, LLC to act as the discretionary investment manager of the assets of the Company. Subject to the overall supervision of the Board and to the investment objectives, policies and restrictions of the Company, T2 Advisers: determines the composition of the portfolio, the nature and timing of changes thereto, and the manner of implementing such changes; identifies, evaluates and negotiates the structure of investments; arranges financing for the Company, subject to Board approval; and closes, monitors and services the investments.

The investment policies of the Company and its subsidiary CLO (the "Group") are described herein. At the current time, virtually the entire consolidated portfolio of the Company is invested in the CLO. While there are investment limitations that the CLO has to maintain as required under its financing indenture (which is described in further detail below), the Company has no such limitations other than at the time of purchase an investment is limited to 15% of the Company's consolidated gross assets. However, if the Company makes a large investment, in such circumstances it has the sole discretion to syndicate or sell a portion of its initial investment.

The Group invests primarily in syndicated corporate loans issued primarily by companies traditionally defined as "middle market", with experienced management, a significant financial or strategic sponsor, a strong competitive position and positive cash flow. The Company began with a particular focus on technology related companies and continues to utilise the technology-based expertise of its principals. The investments are senior debt and have either a first or second lien collateral position in the issuer's assets. Investments made by the CLO must also meet certain tests as required in the financing indenture which include but are not limited to debt ratings levels, currency denomination, issuer's location and investment concentration limits. The CLO must also maintain portfolio limitations which include but are not limited to weighted average maturity, minimum credit spread and maximum risk profile.

**Investment Policy (as amended 11 January 2011)**

The Company seeks to achieve its investment objective through a policy of investing principally in syndicated corporate loans issued primarily by companies with experienced management, a significant financial or strategic sponsor, a strong competitive position and positive cash flow. The main focus of these investments is US middle-market companies.

Investment will be either direct or indirect. Indirect investment will be effected by investment in collateralised loan obligations ("CLOs"). The Company may invest 100 per cent. of its assets in CLOs and will not seek to limit its exposure to any one issuer of CLOs.

Whilst there are no limits to the portfolio make up in terms of industry sector, market capitalisation, credit rating or proportion in listed or unlisted securities, it is intended that the portfolio, when viewed on the basis of the underlying businesses to which the investments provide exposure, is spread across a broad range of industries and businesses.

Subject to prior approval by the Company's Board, where it is deemed appropriate and beneficial to do so, the Company may also invest in equity, debt instruments (other than loans and CLOs) and other investment funds. Investment in equity and debt instruments (other than loans and CLOs) are subject to a maximum of 20 per cent. of gross assets at the time of investment and any investment in the equity or debt instrument (other than loans or CLOs) of a single issuer will be subject to a maximum of 15 per cent. of gross assets at the time of investment. Investment in closed-ended investment funds shall be subject to a maximum of 10 per cent. of gross assets at the time of investment.

The Company's maximum exposure to US issuers is 100 per cent. of gross assets. Investments outside of the US are limited to a maximum 50 per cent. of gross assets at the time of investment.

The maximum allowable gearing is 500 per cent. of the net asset value of the Company and its subsidiaries on a consolidated basis. Where investment is made into CLOs that are not considered subsidiaries of the Company, the borrowings of such CLOs will not be accounted for in the Company's consolidated Statement of Financial Position and such gearing shall not be taken into account in calculating the maximum allowable gearing of the Company. To manage the risk of such additional gearing the Company may only invest a maximum of 50 per cent. of the Company's consolidated net asset value at the time of investment in CLOs that are not considered subsidiaries of the Company for accounting purposes.

It is expected that the portfolio will be at least 90 per cent. invested in most market conditions, although the Company may maintain larger cash weightings from time to time, to protect capital returns or pending identification of appropriate investment opportunities.

The Company may enter into derivative transactions for the purpose of efficient portfolio management hedging (for example, interest rate, currency, or market exposure).

Any material change to the investment policy would require Shareholder approval in accordance with the AIM Rules. In the event of any breach of the investment restrictions applicable to the Company, Shareholders will be informed of the remedial actions to be taken by the Company's Board and the Investment Manager by an announcement issued through a Regulatory Information Service.

# CHAIRMAN'S STATEMENT

I am pleased to report the results of Greenwich Loan Income Fund Limited ("GLIF" or the "Company") for the six-month period ended 30 June 2011.

Since the end of 2010, our NAV per share has fallen from 79.21p to 70.56p. As of 30 June 2011, the Company had invested assets with a fair value of £172.0 million, and cash of £27.0 million (including £23.2 million within the CLO structure). Against this the CLO had debt with a fair value of £132.4 million. The CLO portfolio is comprised of variable rate investments and, on a weighted average basis, carried a spread of approximately 477 basis points over LIBOR.

As we have previously described to shareholders, under International Financial Reporting Standards (IFRS), the consolidated results of operations for the Company include the impact of carrying its investments and its liabilities at fair value. Shareholders should be aware that the Company's realisation of the full NAV is unlikely. The NAV, as calculated in accordance with IFRS, reflects the theoretical fair value of the liabilities of the CLO but, because the market is rather illiquid, it may be difficult for the Company to acquire any of those liabilities at those prices.

For the six-month period ended 30 June 2011, the Company recorded a loss, including net unrealised losses on investments and liabilities, of £3.0 million compared to a £10.0 million profit for the comparable period in 2010, and £11.1 million gain for the year ended 31 December 2010. Basic deficit per share for the period ended 30 June 2011 was 3.2p, and the total dividends declared during the period were 2.0p. This compares to earnings of 11.5p and 2.0p dividends per share in the first half of 2010, and earnings of 12.7p and dividends declared of 4.0p for 2010 as a whole. We have continued to receive full interest payments from the CLO, and the CLO remains in compliance with all material covenant requirements. Overall interest income increased to £5.3 million from £5.1 million from the comparable period of 2010 despite adverse currency movements.

The other values that we have calculated in order to provide further clarity as to the dynamics within the value of the Company are: the unaudited value based upon assets at market value and liabilities at par was 47.6p per share as at 30 June 2011, compared to 45.4p at year-end; and the value based upon CLO assets as calculated for interest diversion purposes, other assets at market value, and liabilities at par was 51.7p per share as at 30 June 2011, compared to 52.8p at year-end.

During the past six months we saw a continuation of the upward move in the prices of syndicated corporate loan, albeit at a significantly slower pace than in 2010. The pricing of our investment portfolio increased from a weighted average bid of 93.4 to 94.9 over that period. We continue to focus more heavily on middle-market issues, especially where we believe greater opportunity currently resides. We believe that, especially in the case of less liquid middle-market loans, supply and demand issues will likely continue to outweigh issuer operating fundamentals, creating opportunities to acquire certain middle-market loans at attractive prices. In looking to take advantage of these opportunities, the fact that the CLO now has built significant cover in its interest diversion tests allows the manager more flexibility in seeking the optimum risk-adjusted value.

As our portfolio is primarily dollar-denominated, currency movements had a significant negative impact on the reported results for the six-month period. On 30 June 2010, the US dollar stood at US$1.50 to the pound but by 30 June 2011 the US dollar had weakened to US$1.61 to the pound. However, it remains the Board's view that at current US$/£ exchange rate levels the risk and reward balance associated with hedging our position is unattractive for the Company.

The Board of GLIF believes that the Company is well placed to continue to accrete value for shareholders and make progress towards the goal of GLIF becoming accepted by a wider range of investors as an investment vehicle to provide a good level of income and an assured level of capital.

**Patrick Firth**
Chairman

14 September 2011

# UNAUDITED CONSOLIDATED INCOME STATEMENT

| | NOTES | **Unaudited Period to 30 June 2011 GBP** | Unaudited Period to 30 June 2010 GBP | Audited Year to 31 December 2010 GBP |
|---|---|---|---|---|
| **Revenue** | *2(d)* | | | |
| Dividends received | | **564,857** | – | – |
| Other income | | **168,340** | 11,483 | 5,168 |
| **Investment Income** | | | | |
| Gain/(loss) on financial assets and liabilities at fair value through profit or loss | | | | |
| – Realised | *6* | **1,251,650** | 518,952 | 1,209,950 |
| – Unrealised | *6* | **(4,743,034)** | 8,368,492 | 7,537,549 |
| – Interest income on fair value through profit or loss assets | *2(d)* | **5,300,357** | 5,059,959 | 9,756,442 |
| – Finance costs | *2(i)* | **(1,302,939)** | (1,757,936) | (1,716,936) |
| Gain on foreign currency transactions | *2(c)* | **82,050** | 769,881 | 295,642 |
| **Total Income** | | **1,321,281** | 12,970,831 | 17,087,815 |
| **Expenses** | | | | |
| Management fees | *4* | **2,045,198** | 1,988,648 | 3,990,969 |
| Administration and secretarial fees | *4* | **92,753** | 42,968 | 113,274 |
| Custodian fees | *4* | **11,079** | 7,469 | 15,154 |
| Legal and professional fees | | **261,440** | – | 127,504 |
| Directors' remuneration | *4* | **44,532** | 33,750 | 110,000 |
| Directors' and officers' insurance | | **30,544** | 29,704 | 61,095 |
| Audit fees | | **28,307** | 31,000 | 61,000 |
| Director's salary | *4* | **39,465** | – | – |
| Other expenses | *4* | **1,840,743** | 834,362 | 1,555,739 |
| **Total Expenses** | | **4,394,061** | 2,967,901 | 6,034,735 |
| **(Loss)/profit for the period/year** | | **(3,072,780)** | 10,002,930 | 11,053,080 |
| Basic (deficit)/earnings per Ordinary Share | *5* | **(0.0318)** | 0.1146 | 0.1266 |
| Diluted (deficit)/earnings per Ordinary Share | *5* | **(0.0318)** | 0.1142 | 0.1264 |

All of the (loss)/profit for the current and prior period/year are attributable to the equity holders of the parent.

The accompanying notes on pages 9 to 28 form an integral part of these financial statements.

# UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | **Unaudited Period to 30 June 2011 GBP** | Unaudited Period to 30 June 2010 GBP | Audited Year to 31 December 2010 GBP |
|---|---|---|---|
| **(Loss)/profit for the period/year** | **(3,072,780)** | 10,002,930 | 11,053,080 |
| **Other comprehensive income** | | | |
| Foreign exchange on consolidation | **2,172,500** | 1,278,801 | 342,922 |
| **Total comprehensive (deficit)/income for the period/year** | **(900,280)** | 11,281,731 | 11,396,002 |
| **Attributable to:** | | | |
| Equity holders of the parent | **(900,280)** | 11,281,731 | 11,396,002 |
| | **(900,280)** | 11,281,731 | 11,396,002 |

The accompanying notes on pages 9 to 28 form an integral part of these financial statements.

# UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | NOTES | Unaudited 30 June 2011 GBP | Unaudited 30 June 2010 GBP | Audited 31 December 2010 GBP |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Financial assets at fair value through profit or loss | *6* | **171,997,903** | 180,889,304 | 161,545,339 |
| | | **171,997,903** | 180,889,304 | 161,545,339 |
| **Current assets** | | | | |
| Note receivable | *7* | **126,397** | 500,000 | 375,268 |
| Trade and other receivables | *7* | **3,469,054** | 1,665,828 | 409,794 |
| Cash and cash equivalents | *8* | **26,992,252** | 17,691,004 | 36,668,950 |
| | | **30,587,703** | 19,856,832 | 37,454,012 |
| **Total assets** | | **202,585,606** | 200,746,136 | 198,999,351 |
| **EQUITY** | | | | |
| Capital and reserves attributable to the Group's equity holders | | | | |
| Share premium | *10* | **19,289,035** | 16,087,290 | 16,087,290 |
| Other reserve | | **34,802,740** | 34,802,740 | 34,802,740 |
| Foreign exchange reserve | | **580,579** | (656,042) | (1,591,921) |
| Retained earnings | | **14,921,530** | 20,549,496 | 19,853,646 |
| **Total equity** | | **69,593,884** | 70,783,484 | 69,151,755 |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Loan notes at fair value through profit or loss | *9* | **132,390,947** | 129,272,947 | 129,207,450 |
| **Current liabilities** | | | | |
| Trade and other payables | *9* | **600,775** | 689,705 | 640,146 |
| **Total liabilities** | | **132,991,722** | 129,962,652 | 129,847,596 |
| **Total equity and liabilities** | | **202,585,606** | 200,746,136 | 198,999,351 |
| Net Asset Value per Ordinary Share | *11* | **£0.7056** | £0.8108 | £0.7921 |

The accompanying notes on pages 9 to 28 form an integral part of these financial statements.

# UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share Capital GBP | Share Premium GBP | Other Reserve**** GBP | Foreign Exchange Reserve GBP | Retained Earnings**** GBP | **Total Equity GBP** |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2009** | – | 16,087,290 | 34,802,740 | (1,934,843) | 12,292,566 | **61,247,753** |
| Dividends paid*** | – | – | – | – | (1,746,000) | **(1,746,000)** |
| Transactions with owners | – | – | – | – | (1,746,000) | **(1,746,000)** |
| Profit for the period | – | – | – | – | 10,002,930 | **10,002,930** |
| *Other comprehensive income:* | | | | | | |
| Foreign exchange on consolidation | – | – | – | 1,278,801 | – | **1,278,801** |
| Total comprehensive income for the period | – | – | – | 1,278,801 | 10,002,930 | **11,281,731** |
| **Balance at 30 June 2010** | – | 16,087,290 | 34,802,740 | (656,042) | 20,549,496 | **70,783,484** |
| Dividends paid** | – | – | – | – | (1,746,000) | **(1,746,000)** |
| Transactions with owners | – | – | – | – | (1,746,000) | **(1,746,000)** |
| Profit for the period | – | – | – | – | 1,050,150 | **1,050,150** |
| *Other comprehensive income:* | | | | | | |
| Foreign exchange on consolidation | – | – | – | (935,879) | – | **(935,879)** |
| Total comprehensive income for the period | – | – | – | (935,879) | 1,050,150 | **114,271** |
| **Balance at 31 December 2010** | – | 16,087,290 | 34,802,740 | (1,591,921) | 19,853,646 | **69,151,755** |
| Net proceeds from Ordinary Shares issued | – | 3,201,745 | – | – | – | **3,201,745** |
| Dividends paid* | – | – | – | – | (1,859,336) | **(1,859,336)** |
| Transactions with owners | – | 3,201,745 | – | – | (1,859,336) | **1,342,409** |
| Loss for the period | – | – | – | – | (3,072,780) | **(3,072,780)** |
| *Other comprehensive income:* | | | | | | |
| Foreign exchange on consolidation | – | – | – | 2,172,500 | – | **2,172,500** |
| Total comprehensive deficit for the period | – | – | – | 2,172,500 | (3,072,780) | **(900,280)** |
| **Balance at 30 June 2011** | – | 19,289,035 | 34,802,740 | 580,579 | 14,921,530 | **69,593,884** |

*During the period ended 30 June 2011 the Company made two dividend payments.
**During the year ended 31 December 2010 the Company made four dividend payments.
***During the period ended 30 June 2010 the Company made two dividend payments.
****Distributable reserves.

The accompanying notes on pages 9 to 28 form an integral part of these financial statements.

# UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

| | NOTES | Unaudited Period to 30 June 2011 GBP | Unaudited Period to 30 June 2010 GBP | Audited Year to 31 December 2010 GBP |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash (used in)/generated from operations | 12 | **(298,772)** | 731,498 | 3,252,800 |
| Purchase of investments | | **(82,309,547)** | (37,282,651) | (80,166,361) |
| Sales of investments | | **21,503,713** | – | 23,754,633 |
| Principal received | | **47,912,999** | 30,455,743 | 68,723,343 |
| **Net cash (outflow)/inflow from operating activities** | | **(13,191,607)** | (6,095,410) | 15,564,415 |
| **Cash flows from financing activities** | | | | |
| Net proceeds from issue of Ordinary Shares | | **3,201,745** | – | – |
| Bank loan received | | **12,000,000** | – | – |
| Bank loan repaid | | **(12,000,000)** | – | – |
| Dividends paid | | **(1,859,336)** | (1,746,000) | (3,492,000) |
| **Net cash inflow/(outflow) from financing activities** | | **1,342,409** | (1,746,000) | (3,492,000) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(11,849,198)** | (7,841,410) | 12,072,415 |
| Cash and cash equivalents at beginning of period/year | | **36,668,950** | 24,253,613 | 24,253,613 |
| Effects of foreign exchange movements | | **2,172,500** | 1,278,801 | 342,922 |
| **Cash and cash equivalents at end of period/year** | | **26,992,252** | 17,691,004 | 36,668,950 |

The accompanying notes on pages 9 to 28 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS
## FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2011

### 1. GENERAL INFORMATION

Greenwich Loan Income Fund Limited (the "Company") was incorporated and domiciled in Guernsey, Channel Islands, as a company limited by shares and with limited liability on 9 June 2005 in accordance with The Companies (Guernsey) Law, 1994 (since superseded by The Companies (Guernsey) Law, 2008). The address of the registered office is P.O. Box 296, Sarnia House, Le Truchot, St Peter Port, Guernsey, GY1 4NA. The Company is a Guernsey Authorised Closed-ended Investment Scheme and is subject to the Authorised Closed-ended Investment Scheme Rules 2008. The Company was admitted to the AIM market of the London Stock Exchange on 5 August 2005.

The Company is an investment company, and its investment policies and strategies are managed by an outside investment manager, T2 Advisers, LLC ("T2 Advisers" or the "Investment Manager"), a registered investment adviser in the United States, under the terms of an investment manager agreement. T2 Advisers is also the collateral manager for T2 CLO.

On 26 October 2009, the Company received approval from the Guernsey authorities to change its name from T2 Income Fund Limited to Greenwich Loan Income Fund Limited.

A Cayman Islands registered subsidiary company, T2 Income Fund CLO I Ltd ("T2 CLO" or the "CLO"), was created on 11 October 2006. The CLO is a wholly owned subsidiary of the Company and the operating results are consolidated in these financial statements. On 31 January 2011, the Company acquired a second wholly owned subsidiary, Asset Management Investment Company plc ("AMIC") and the operating results are consolidated in these financial statements. Subsequent to this transaction AMIC changed its name to Asset Management Investment Company Limited ("AMIC"). As a result of this acquisition 11,333,610 new Ordinary Shares in the Company were issued.

On 1 February 2011, the Company's 11,333,610 new Ordinary Shares and the 87,300,000 existing Ordinary Shares were admitted to trading on the Official List of the Channel Island Stock Exchange ("CISX").

The Group is comprised of the Company, CLO and AMIC.

#### Investing Policy

On 11 January 2011, the shareholders approved the clarification to the Company's investment policy. The full investment policy is disclosed on page 2.

### 2. ACCOUNTING POLICIES

#### (a) Basis of preparation

The interim financial information as at and for the six month periods ended 30 June 2011 and 30 June 2010 is unaudited and does not constitute statutory accounts for the purposes of the Companies (Guernsey) Law, 2008. The figures for the year ended 31 December 2010 have been extracted from the statutory accounts. The auditors' report on those financial statements was unmodified. The Group has chosen to prepare full consolidated interim financial statements (the "financial statements"). The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended 31 December 2010, as described in those financial statements.

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, apart from the inclusion of non-current asset investments, foreign currency derivatives and non-current liabilities at fair value through profit or loss. The principal accounting policies of the Group have remained unchanged from the previous year and are set out below. Comparative information is given for the year ended 31 December 2010. The Board does not consider it necessary to provide full comparative information for the period ended 30 June 2010.

#### (b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Greenwich Loan Income Fund Limited and its subsidiaries, T2 CLO and AMIC. Subsidaries are all entities for which the Company has greater than 50 per cent of the ownership of the residual economic interest. The Company obtains and exercises control of the T2 CLO subsidiary through ownership of the income notes of the entity and obtains and exercises control of the AMIC subsidiary through ownership of 100% of AMIC's equity shares. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated in full on consolidation.

The Company carries its investment in the T2 CLO and AMIC subsidiaries at fair value through profit or loss. This is based upon the fair value of the assets and liabilities held by the T2 CLO and AMIC, which the Directors consider to be indicative of fair value for financial reporting purposes; however, the disparity between the Company's NAV per Ordinary Share, as determined under IFRS, and share price is acknowledged by the Directors and in their opinion it is reflective of significant dislocations in the global credit markets, practical limitations on the Company's ability to realise the discount reflected in the fair value of the CLO loan notes and disparity between valuations of portfolio investments and the likely sales price of such investments.

2. ACCOUNTING POLICIES CONTINUED

(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 if the Company was wound up. 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 the AMIC subsidiary, with US Dollars the functional currency of the T2 CLO subsidiary. Therefore the books and records are maintained in Sterling and US 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 Unaudited Consolidated Statement of Comprehensive Income.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

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

*(iii) Subsidiary companies*

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 Unaudited Consolidated Statement of Financial Position presented are translated at the closing rate at the date of the year end;
2. income and expenses for the Unaudited Consolidated Income Statement are translated at average exchange rates for the year (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 in other comprehensive income and accumulated as a separate component of equity.

(d) Revenue recognition

Revenue is recognised as follows:

– Other income – relates to bank interest received. Bank interest is recognised on an accruals basis.
– Dividend income - dividend income is recognised when the right to receive payment is established.

(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 Unaudited Consolidated Statement of Comprehensive Income.

(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 on call with banks, bank overdrafts and other short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(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 using the effective interest rate method less impairment.

2. ACCOUNTING POLICIES CONTINUED

(k) Trade and other payables

Payables are recognised initially at fair value and subsequently stated at amortised cost using the effective interest rate method.

(l) Investments and loan notes

*(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 CLO loan notes were designated at fair value through profit or loss because the purpose of issuing the CLO loan notes was to be able to make investments in syndicated loans which were based upon the same or similar variable interest rates, and the fair value designation avoided an accounting mismatch between the sources of financing for the purchase of investments and the investments themselves. The Directors recognise that the magnitude of fair value movement of the CLO loan notes has been substantially greater than the movement of the investments, due to variations in the different markets in which these instruments are traded.

Unquoted equity security investments, at fair value through profit or loss, are valued in accordance with the International Private Equity and Venture Capital valuation guidelines or any other valuation model and techniques which can provide a reasonable estimate of fair value of the investment involved.

The fair value of financial instruments traded in active markets is based on quoted market prices at the year end 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 the Company receives market quotes from agent banks on a quarterly basis. In addition, because of the generally limited trading activity in the syndicated loan market in those instances where there has been a significant change in the credit profile of a portfolio company, the Investment Manager prepares an analysis of the portfolio company's recent and projected financial performance as well as other relevant business developments. In those instances where the Investment Manager believes additional analysis is necessary, for example due to a significant change in the market quote without related transaction volume, an outside valuation firm will provide a valuation estimate based upon their proprietary methodologies and techniques. Factors considered in these independent valuation analyses include discounted cash flows, comparable company and comparable transaction analysis, and credit spread analysis based upon the independent valuation firms' view of the implied credit rating of the investment and the corresponding required spread in the marketplace. The Board considers all the information presented to it, including indicative bids, internal analysis, and independent valuations, in order to reach, in good faith, their fair value determination.

For bi-lateral loans, an independent third party performs portfolio company evaluations. As at 30 June 2011 and 31 December 2010, there were no bi-lateral loans in the Group's portfolio.

The fair value of the CLO loan notes is determined primarily by reference to a market value report provided by the independent broker-dealer which makes the market in the CLO notes. Due to the very limited trading activity in this security, and the significant dislocations which have occurred in the credit markets generally and in the CLO markets in particular, the Directors consider the market value report to be the best indicator of fair value for the notes. The market value report reflects the proprietary analysis of the broker-dealer, specifically considering the cash flows projections of the T2 CLO subsidiary, the credit quality of the investments included in the CLO, and the credit spread required by the marketplace for CLO notes with these particular characteristics. The Directors also consider any trading activity in the CLO notes, if any, as well as other indicators of value based upon discussions between the Investment Manager and the few holders of the notes. The Directors believe that the mid-market value report is the best reflection of fair value of the notes, consistent with the requirements of IFRS, and is consistent with the other factors which have been taken into consideration.

Gains and losses arising from changes in the fair value of the financial assets and liabilities at fair value through profit or loss are included in the Unaudited Consolidated Statement of Comprehensive Income in the period in which they arise.

*Net income from financial instruments at fair value through profit or loss*

Net income from financial instruments at fair value through profit or loss relates to financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes, interest (using the effective interest rate method), dividends, finance costs and foreign exchange differences.

Total finance costs for the period were GBP1,302,939 (31 December 2010: GBP1,716,936). These finance costs are for interest due to the loan note holders, loan facility fees and loan interest paid. Fair value of long-term notes outstanding at 30 June 2011 were GBP132,390,947 (31 December 2010: GBP129,207,450).

*(ii) Derivative Financial Instruments*

Derivatives are categorised as financial assets or liabilities held for trading and valued at fair value through profit or loss. There were no derivatives held by the Group as at 30 June 2011 (31 December 2010: none).

2. ACCOUNTING POLICIES CONTINUED

(l) Investments and loan notes continued

*(iii) Subsidiaries*

Investments in the subsidiaries are initially recorded at cost. The Company carries its investments in the T2 CLO and AMIC subsidiaries at fair value through profit or loss. This is based upon the fair value of the assets and liabilities held by T2 CLO and AMIC, which the Directors consider to be indicative of fair value for financial reporting purposes. Through its ownership of the residual economic interest of T2 CLO the Directors consider it to be a wholly owned subsidiary and the operating results are consolidated in these financial statements. The Company owns all of the equity shares of AMIC and is therefore a wholly owned subsidiary with its operating results being consolidated in these financial statements.

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

The Group 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 actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results. The Group also makes assumptions on the classification of financial assets.

*Investments and loan notes designated as financial assets and liabilities at fair value*

The Group invests in broadly syndicated loans that have limited trading activity. The CLO loan notes in issue also trade infrequently. The fair value of such instruments is determined by using valuation techniques. Details of the assumptions used are given in the notes regarding financial assets and liabilities.

*Unlisted Debt Securities and Unlisted Equity Securities*

The Group can invest in financial instruments which are not quoted in active markets and may receive such financial instruments as distributions on certain investments. Fair values are determined by using valuation techniques. Where valuation techniques, such as the Market Capitalisation 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. See Note 6 for carrying amount at the period end.

Because the Group's portfolio investments are generally not traded in active markets, fair value determinations are based upon additional information, including internal analysis and projections as well as independent valuation work performed by outside firms, beyond the indicative quotes which are generally also available for portfolio investments. These other analyses rely upon observable data including comparable transactions, interest rates and credit spreads.

The Group's liabilities likewise are not traded in active markets, and the independent analysis which provides the basis for the fair value determination is based, in part, upon observable market data including interest rates and credit spreads. The fair value change in the Group's liabilities may differ substantially from the change in the investment portfolio, even though both are related to interest rates generally, because the assumptions relative to the value of CLO liabilities specifically include the assumptions about credit quality of the individual component companies of the CLO investment portfolio, the anticipated cash flow from those investments, and the resulting possibility of covenant defaults which could dramatically effect the sustainability of the CLO structure and therefore the fair value of the loan notes.

(n) New accounting policies effective and adopted

There are no new standards effective for the current periods which are relevant to the Company's operations.

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these Financial Statements, were in issue but not yet effective:

- IAS 12 (amended), "Income Taxes" (effective for periods commencing on or after 1 January 2012);
- IFRS 7 (amended), '"Financial Instruments: Disclosures" (effective for periods commencing on or after 1 July 2011);
- IFRS 9,"Financial Instruments - Classification and Measurement" (effective for periods commencing on or after 1 January 2013);
- IFRS 10, "Consolidated Financial Statements" (effective for periods commencing on or after 1 January 2013);
- IFRS 11, "Joint arrangements" (effective for periods commencing on or after 1 January 2013);
- IFRS 12, "Disclosure of Interest in Other Entities" (effective for periods commencing on or after 1 January 2013);
- IFRS 13, "Fair Value Measurement" (effective for periods commencing on or after 1 January 2013);

None of these will have a material effect on the financial statements of the Company, with the exception of IFRS 9 "Financial Instruments – Classification and Measurement" which is not expected to effect the financial position of the Group but may require additional disclosure in future financial statements.

(o) Share based payments

Share options are valued in accordance with IFRS2. In accordance with IFRS2, share options issued are measured using the fair value of the options at the grant date or an estimate of the fair value of the services received. See note 10 for details. No additional share options were issued during the period.

## 3. FINANCIAL RISK MANAGEMENT

### Financial risk factors

The Group is exposed to a variety of financial risks: market risk (including price risk, fair value interest rate risk, cash flow interest rate risk and currency risk), credit risk and liquidity risk. 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.

### Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

**Categories of financial instruments**

| | CARRYING VALUE AT 30 JUNE 2011 | | | |
|---|---|---|---|---|
| | **Designated Fair Value through Profit or Loss GBP** | **Financial Assets measured at amortised cost GBP** | **Financial Liabilities measured at amortised cost GBP** | **Other GBP** |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss | **171,997,903** | **–** | **–** | **–** |
| Note receivable | **–** | **126,397** | **–** | **–** |
| Trade and other receivables | **–** | **3,469,054** | **–** | **–** |
| Cash and cash equivalents | **–** | **–** | **–** | **26,992,252** |
| **Total assets** | **171,997,903** | **3,595,451** | **–** | **26,992,252** |
| **Financial liabilities** | | | | |
| Loan notes at fair value through profit or loss | **132,390,947** | **–** | **–** | **–** |
| Trade and other payables | **–** | **–** | **600,775** | **–** |
| **Total Liabilities** | **132,390,947** | **–** | **600,775** | **–** |

| | CARRYING VALUE AT 31 DECEMBER 2010 | | | |
|---|---|---|---|---|
| | Designated Fair Value through Profit or Loss GBP | Financial Assets measured at amortised cost GBP | Financial Liabilities measured at amortised cost GBP | Other GBP |
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss | 161,545,339 | – | – | – |
| Note receivable | – | 375,268 | – | – |
| Trade and other receivables | – | 409,794 | – | – |
| Cash and cash equivalents | – | – | – | 36,668,950 |
| **Total assets** | 161,545,339 | 785,062 | – | 36,668,950 |
| **Financial liabilities** | | | | |
| Loan notes at fair value through profit or loss | 129,207,450 | – | – | – |
| Trade and other payables | – | – | 640,146 | – |
| **Total Liabilities** | 129,207,450 | – | 640,146 | – |

### 3. FINANCIAL RISK MANAGEMENT CONTINUED

#### Capital Risk Management

The Group's capital is represented by the net assets attributable to shareholders and the objective when managing capital is to enable the Group to continue as a going concern in order to provide a consistent appropriate risk-adjusted return to shareholders, and to maintain a strong capital base to support the continued development of its investment activities. The Group manages its capital to ensure that its objective is met. It does this by investing available cash whilst maintaining sufficient liquidity to meet on-going expenses and dividend payments. The Group considers its capital to include share capital, distributable reserves, retained earnings, and debt. The Group is not subject to regulatory or industry specific limitations on its capital, other than the legal requirements for Guernsey incorporated entities. The Group considers the amount and composition of its capital in proportion to risk. Adjustments to the capital structure will be taken in response to economic conditions, the cost of debt, the ability to raise share capital, and other opportunities and factors which the Board may consider. At 30 June 2011, the Group had total equity of GBP69,593,884 (31 December 2010: GBP69,151,755).

The Group monitors the ratio of debt to other capital which, based upon shareholder approval, is limited to 5 to 1. Since the debt of the Group is currently contained within its CLO subsidiary, its debt is collateralized by investments held in the CLO portfolio. The portfolio is subject to various financial and other covenant tests which may result in required paydowns of its debt from time to time; in the absence of such required paydowns, the debt matures in 2019.

The Group has sought to achieve an attractive risk adjusted return by investing in debt securities, consisting primarily of senior debt across multiple industries. The Group intends to invest primarily in companies with attractive fundamental characteristics including experienced management, a significant financial or strategic sponsor or partner, a strong competitive position and positive cash flow.

The Investment Manager ensures that not more than 15% of the Group's gross assets are invested in any one investment. Consistent with shareholder approval obtained in December 2006, the Group may apply leverage up to 500%, or five times, the net asset value of the Group. Leverage is the ability to incur indebtedness for the purpose of making investments. The Group has incurred net indebtedness (approximately US$248.9 million; GBP154.1 million at cost, US$212.5 million; GBP132.4 million at fair value as at the period end) through its CLO subsidiary in the form of long-term notes.

#### Concentration Risk

While the Investment Manager will attempt to spread the Group's assets among a number of investments in accordance with the investment policies adopted by the Group, at times the Group may hold a relatively small number of investments each representing a relatively large portion of the Group's net assets. Losses incurred in such investments could have a materially adverse effect on the Group's overall financial condition. Whilst the Group's portfolio is diversified in terms of the companies in which it invests, the investment portfolio of the Group may be subject to more rapid change in value than would be the case if the Group were required to maintain a wide diversification among types of securities, countries and industry groups. Please refer to the Portfolio of the Group that follows the Notes to the consolidated financial statements.

#### (a) 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. All investments present a risk of loss of capital.

At 30 June 2011, the Group's market risk is affected by three main components: changes in actual market prices, interest rates and foreign currency movements. Interest rates and foreign currency movements are covered at (b) and (c) below.

The following details the Group's sensitivity to a 5% increase and decrease in the market prices, with 5% being the sensitivity rate used when reporting price risk to key management and represents management's assessment of the possible change in market price.

If market prices had increased by 5% with all other variables held constant, this would have increased net assets attributable to holders of equity shares by approximately GBP1,980,348 (31 December 2010: GBP1,616,894), due to the increase in the fair value of financial assets at fair value through profit or loss by GBP8,599,895 (31 December 2010: GBP8,077,267) offset by the increase in the fair value of the financial liabilities at fair value through profit or loss by GBP6,619,547 (31 December 2010: GBP6,460,373). Conversely, if market prices had decreased by 5%, this would have decreased net assets attributable to holders of equity shares by approximately GBP1,980,348 (31 December 2010: GBP1,616,894), due to the decrease in the fair value of financial assets at fair value through profit or loss by GBP8,599,895 (31 December 2010: GBP8,077,267) offset by the decrease in the fair value of the financial liabilities at fair value through profit or loss by GBP6,619,547 (31 December 2010: GBP6,460,373).

#### (b) 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 has exposure to interest rate risk because it has borrowed to fund 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. Interest rate risk is comprised of two elements: spread risk and rate risk.

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 Group's cash balances, debt instruments and loan notes 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.

3. FINANCIAL RISK MANAGEMENT CONTINUED

(b) Interest rate risk continued

The table below summarises the Group's exposure to interest rate risk.

| At 30 June 2011 | Floating rate Financial Assets GBP | Fixed rate Financial Assets GBP | Non-interest Bearing Financial Assets GBP | Total GBP |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | **165,626,950** | **–** | **6,370,953** | **171,997,903** |
| Note receivable | **–** | **–** | **126,397** | **126,397** |
| Trade and other receivables | **–** | **–** | **3,469,054** | **3,469,054** |
| Cash and cash equivalents | **26,992,252** | **–** | **–** | **26,992,252** |
| **Total assets** | **192,619,202** | **–** | **9,966,404** | **202,585,606** |
| **Liabilities** | | | | |
| Loan notes | **132,390,947** | **–** | **–** | **132,390,947** |
| Trade and other payables | **–** | **–** | **600,775** | **600,775** |
| **Total liabilities** | **132,390,947** | **–** | **600,775** | **132,991,722** |
| **Total interest sensitivity gap** | **60,228,255** | **–** | **9,365,629** | **69,593,884** |

| At 31 December 2010 | Floating rate Financial Assets GBP | Fixed rate Financial Assets GBP | Non-interest Bearing Financial Assets GBP | Total GBP |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | 160,456,433 | – | 1,088,906 | 161,545,339 |
| Note receivable | – | – | 375,268 | 375,268 |
| Trade and other receivables | – | – | 409,794 | 409,794 |
| Cash and cash equivalents | 36,668,950 | – | – | 36,668,950 |
| **Total assets** | 197,125,383 | – | 1,873,968 | 198,999,351 |
| **Liabilities** | | | | |
| Loan notes | 129,207,450 | – | – | 129,207,450 |
| Trade and other payables | – | – | 640,146 | 640,146 |
| **Total liabilities** | 129,207,450 | – | 640,146 | 129,847,596 |
| **Total interest sensitivity gap** | 67,917,933 | – | 1,233,822 | 69,151,755 |

The sensitivity analyses below have been determined based on the Group's exposure to interest rates for interest bearing assets and liabilities (included in the interest rate exposure table above) at the period end date and the stipulated change taking place at the beginning of the financial period and held constant through the reporting period in the case of instruments that have floating rates.

A 200 basis point increase or decrease is used when reporting interest spread risk internally on financial assets at fair value through profit or loss and represents management's assessment of the possible change in interest spreads, and 25 basis points is used when reporting interest rate risk for all interest bearing assets and liabilities.

At 30 June 2011, should the interest spread have lowered by 200 basis points with all other variables remaining constant, the decrease in net assets attributable to holders of equity for the period would amount to approximately GBP3,475,645 (31 December 2010: GBP3,437,414). If the interest spread had risen by 200 basis points, the increase in net assets attributable to holders of equity would amount to approximately GBP3,475,645 (31 December 2010: GBP3,437,414).

3. FINANCIAL RISK MANAGEMENT CONTINUED

(b) Interest rate risk continued

At 30 June 2011, should interest rates have lowered by 25 basis points with all other variables remaining constant, the increase in net assets attributable to holders of equity for the year would amount to approximately GBP116,641(31 December 2010: increase in net assets GBP139,233). If the interest rate had risen by 25 basis points, the decrease in net assets attributable to holders of equity would amount to approximately GBP116,641 (31 December 2010: decrease in net assets GBP139,233).

The Group's exposure to interest rate risk is limited to its financial assets at fair value through profit or loss, loan notes held at financial assets at fair value through profit or loss and its cash and cash equivalents. These are all floating rate financial assets.

(c) 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.

Foreign currency denominated financial assets and liabilities, translated into GBP at the closing rate, are as follows:

| 30 June 2011 | USD | GBP | Total |
|---|---|---|---|
| **Assets** | | | |
| Financial assets at fair value through profit or loss account | **165,508,742** | **6,489,161** | **171,997,903** |
| Cash and cash equivalents | **24,932,026** | **2,060,226** | **26,992,252** |
| Note receivable | **–** | **126,397** | **126,397** |
| Trade and other receivables | **2,527,760** | **941,294** | **3,469,054** |
| **Total assets** | **192,968,528** | **9,617,078** | **202,585,606** |
| **Liabilities** | | | |
| Loan notes at fair value through profit or loss | **132,390,947** | **–** | **132,390,947** |
| Trade and other payables | **477,464** | **123,311** | **600,775** |
| | **132,868,411** | **123,311** | **132,991,722** |
| **Total currency sensitivity gap** | **60,100,117** | **9,493,767** | **69,593,884** |

| 31 December 2010 | USD | GBP | Total |
|---|---|---|---|
| **Assets** | | | |
| Financial assets at fair value through profit or loss account | 161,545,339 | – | 161,545,339 |
| Cash and cash equivalents | 32,540,192 | 4,128,758 | 36,668,950 |
| Note receivable | – | 375,268 | 375,268 |
| Trade and other receivables | 403,086 | 6,708 | 409,794 |
| **Total assets** | 194,488,617 | 4,510,734 | 198,999,351 |
| **Liabilities** | | | |
| Loan notes at fair value through profit or loss | 129,207,450 | – | 129,207,450 |
| Trade and other payables | 488,205 | 151,941 | 640,146 |
| | 129,695,655 | 151,941 | 129,847,596 |
| **Total currency sensitivity gap** | 64,792,962 | 4,358,793 | 69,151,755 |

3. FINANCIAL RISK MANAGEMENT CONTINUED

(c) Currency risk continued

The majority of the Group's financial assets and liabilities are also denominated in US Dollars and therefore the Group is exposed to fluctuations in the GBP:US Dollar foreign exchange rate.

The sensitivity analysis below has been determined based on the sensitivity of the Group's outstanding foreign currency denominated financial assets and liabilities to a 5% increase/decrease in the Sterling against US Dollar, translated at the period end date.

At 30 June 2011, if GBP had weakened or strengthened by 5% against the US Dollar, with all other variables held constant, the increase or decrease respectively in net assets attributable to holders of equity shares during the period would amount to approximately GBP1,502,503 (year ended 31 December 2010: GBP3,239,648).

In accordance with the Group's policy, the Investment Manager monitors the Group's currency position on a regular basis, and the Board of Directors reviews it on a quarterly basis.

(d) 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 year end 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 investment portfolio of the Group is subject to a number of diversification requirements including size, industry and ratings to ensure that it is sufficiently diversified.

The maximum credit risk associated with the investment portfolio is represented by the fair value of the investments as shown in Note 6.

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

| Portfolio by rating category | **30 June 2011** | 31 December 2010 |
|---|---|---|
| 1 | **4%** | 9% |
| 2 | **85%** | 73% |
| 3 | **9%** | 18% |
| 4 | **0%** | 0% |
| 5 | **2%** | 0% |
| **Total** | **100%** | 100% |

| Credit Ratings Level | Ratings Criteria Methodology (1) (General Parameters) |
|---|---|
| 1 | Company is ahead of expectations and/or outperforming financial covenant requirements and this trend is expected to continue. |
| 2 | Full repayment of principal and interest is expected. |
| 3 | Closer monitoring is required. Full repayment of principal and interest is expected. |
| 4 | A reduction of interest income has occurred or is expected to occur. No loss of principal is expected. |
| 5 | A loss of some portion of principal is expected. **(2)** |

(1) The above methodology outlines the general parameters adopted to determine ratings, and other facts and circumstances may be considered when determining an appropriate Credit Ratings Level.

(2) An estimate of the potential amount of principal loss will be determined on a quarterly basis.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

3. FINANCIAL RISK MANAGEMENT CONTINUED

(d) Credit risk continued

The credit risk associated with the CLO loan notes, designated as a financial liability held at fair value through profit or loss, is affected by changes in the credit ratings associated with the different classes of the loan notes. During 2009 the following changes in ratings were noted for each of the classes:

– Class A - rated as AAA by Standard & Poor's and Aaa by Moody's throughout the year
– Class B - rated as AA by Standard & Poor's and Aa2 by Moody's throughout the year
– Class C - rated as A by Standard & Poor's throughout the year and rated as Baaa3 by Moody's at the start of the year and subsequently upgraded to Baa1 during the year
– Class D - rated as BBB by Standard & Poor's throughout the year and rated as Ba3 by Moody's at the start of the year and subsequently upgraded to Ba1 during the year
– Class E - rated as BB by Standard & Poor's throughout the year and rated as B3 at the start of the year and subsequently upgraded to B3 during the year.

(e) 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 until maturity of the debt, the Group does not expect realisation events to occur in the near term.

The Company's investment in its subsidiary, T2 CLO, is also considered to be an illiquid investment.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the period/year end date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows, assuming interest rates in effect at the period/year end.

| | CURRENT | | NON-CURRENT | | |
|---|---|---|---|---|---|
| | Within 6 months GBP | 6 to 12 months GBP | 1 to 5 years GBP | Later than 5 years GBP | No stated maturity GBP |
| **At 30 June 2011** | | | | | |
| Loan notes | **814,881** | **806,024** | **6,470,334** | **159,946,151** | **–** |
| Trade and other payables | **600,775** | **–** | **–** | **–** | **–** |
| **Total financial liabilities** | **1,415,656** | **806,024** | **6,470,334** | **159,946,151** | **–** |
| **At 31 December 2010** | | | | | |
| Loan notes | 800,486 | 813,753 | 6,461,378 | 162,473,589 | – |
| Trade and other payables | 640,146 | – | – | – | – |
| **Total financial liabilities** | 1,440,632 | 813,753 | 6,461,378 | 162,473,589 | – |

Fair value estimation

The fair values of the Group's short-term trade receivables and payables approximate their carrying amounts at the period/year end date.

Financial instruments measured at fair value

The Group adopted the amendments to IFRS 7 "Improving Disclosures about Financial Instruments" effective from 1 January 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the Unaudited Consolidated Statement of Financial Position.

The following table presents financial assets and liabilities measured at fair value in the Unaudited Consolidated Statement of Financial Position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

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

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

3. FINANCIAL RISK MANAGEMENT CONTINUED

(e) Liquidity risk continued

Financial instruments measured at fair value continued

The financial assets and liabilities measured at fair value in the Unaudited Consolidated Statement of Financial Position are grouped into the fair value hierarchy as follows:

| At 30 June 2011 | Note | Level 1 GBP | Level 2 GBP | Level 3 GBP | Total GBP |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Broadly syndicated loans | *a* | – | – | **165,626,950** | **165,626,950** |
| Equity securities | *b* | – | – | **6,370,953** | **6,370,953** |
| Total | | – | – | **171,997,903** | **171,997,903** |
| **Liabilities** | | | | | |
| CLO loan notes | *c* | – | – | **(132,390,947)** | **(132,390,947)** |
| Total | | – | – | **(132,390,947)** | **(132,390,947)** |
| Net Fair Value | | – | – | **39,606,956** | **39,606,956** |

| At 31 December 2010 | Note | Level 1 GBP | Level 2 GBP | Level 3 GBP | Total GBP |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Broadly syndicated loans | *a* | – | – | 160,456,433 | 160,456,433 |
| Equity securities | *b* | – | – | 1,088,906 | 1,088,906 |
| Total | | – | – | 161,545,339 | 161,545,339 |
| **Liabilities** | | | | | |
| CLO loan notes | *c* | – | – | (129,207,450) | (129,207,450) |
| Total | | – | – | (129,207,450) | (129,207,450) |
| Net Fair Value | | – | – | 32,337,889 | 32,337,889 |

Measurement of fair value

The methods and valuation techniques used for the purposes of measuring fair value are unchanged compared to the previous reporting period.

(a) Broadly syndicated loans

All the broadly syndicated loans are denominated in USD. The loans have significant unobservable inputs, as they trade infrequently. As observable prices are not available for these securities, the Investment Manager has used valuation techiques to assist the Board in its determining of the fair value.

(b) Equity securities

All the equity securities are denominated in USD. The equity securities have significant unobservable inputs, as they trade infrequently. As observable prices are not available for these securities, the Investment Manager has used valuation techiques to assist the Board in its determining of the fair value.

(c) CLO loan notes

The CLO loan notes are denominated in USD. The loan notes also have significant unobservable inputs, as they trade infrequently. The fair value of the loan notes is determined primarily by reference to a mid-market value report provided by the independent broker-dealer.

3. FINANCIAL RISK MANAGEMENT CONTINUED

(e) Liquidity risk continued

Financial instruments measured at fair value continued

Level 3 fair value measurements

The Group's financial assets and liabilities classified in Level 3 use valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

| Period ended 30 June 2011 | Broadly Syndicated loans GBP | Equity GBP | CLO Loan Notes GBP | Total GBP |
|---|---|---|---|---|
| Opening balance | 160,456,433 | 1,088,906 | (129,207,450) | 32,337,889 |
| Purchases/loans advanced | 70,728,472 | – | – | 70,728,472 |
| Transfers in* | 7,025,939 | 4,555,136 | – | 11,581,075 |
| Consolidated reinstatement** | – | – | (1,251,654) | (1,251,654) |
| Sales | (20,474,393) | (420,798) | (1,489,252) | (22,384,443) |
| Capital repayments | (47,912,999) | – | – | (47,912,999) |
| Gains and losses recognised in profit and loss | | | | |
| – realised | 1,293,987 | (1,531,589) | 1,489,252 | 1,251,650 |
| – unrealised | (5,490,489) | 2,679,298 | (1,931,843) | (4,743,034) |
| **Closing balance** | 165,626,950 | 6,370,953 | (132,390,947) | 39,606,956 |

* On acquisition of AMIC subsidiary

** previously this would contra in the consolidated Group financial statements as the Company directly held some of the CLO loan notes issued by T2 CLO. During the period the Company sold these CLO loan notes to a third party.

| Year ended 31 December 2010 | Broadly Syndicated loans GBP | Equity GBP | CLO Loan Notes GBP | Total GBP |
|---|---|---|---|---|
| Opening balance | 153,256,998 | – | (117,354,993) | 35,902,005 |
| Purchases | 80,166,361 | – | – | 80,166,361 |
| Sales | (23,754,633) | – | – | (23,754,633) |
| Capital repayments | (68,723,343) | – | – | (68,723,343) |
| Gains and losses recognised in profit and loss | | | | |
| – realised | 1,209,950 | – | – | 1,209,950 |
| – unrealised | 18,301,100 | 1,088,906 | (11,852,457) | 7,537,549 |
| **Closing balance** | 160,456,433 | 1,088,906 | (129,207,450) | 32,337,889 |

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognised in profit or loss, total assets or total liabilities or total equity.

There have been no transfers into or out of level 3 in the reporting periods under review.

4. FUND EXPENSES

Management fee

The Investment Manager, T2 Advisers, LLC, is entitled to receive an annual fee payable quarterly in advance. The management fee is calculated based on the average value of the Company's gross assets at the most recently completed calendar quarter and the projected gross assets as of the end of the current calendar quarter. With effect from 1 July 2010, the management fee payable was reduced by 25 basis points from 2.00% of gross assets to 1.75% of gross assets.

Total fees charged for the period ended 30 June 2011 amounted to GBP2,045,198 (30 June 2010: GBP1,988,648 & 31 December 2010: GBP3,990,969). The total amount due and payable at the period end amounted to GBP117,082 (30 June 2010 & 31 December 2010: GBPnil).

4. FUND EXPENSES CONTINUED

Administration and secretarial fees

On 23 July 2010, the administration and secretarial services to the Company were transferred from Butterfield Fulcrum Group (Guernsey) Limited to Praxis Fund Services Limited.

For the period since 24 July 2010, Praxis Fund Services is entitled to an annualised fee for its services, as administrator of 0.1% 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 GBP55,000 per annum. With regard to company secretarial services, the Administrator is compensated on a time cost basis.

For the period 1 January 2010 to 24 July 2010, the former Administrator and Secretary, Butterfield Fulcrum Group (Guernsey) Limited, was 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 was subject to a minimum of GBP40,000 per annum. They were 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 charged for the period ended 30 June 2011 amounted to GBP92,753 (30 June 2010: GBP42,968 & 31 December 2010: GBP113,274). The total amount due and payable at the period end amounted to GBP42,271 (30 June 2010: GBP12,864 & 31 December 2010: GBP39,609).

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 period ended 30 June 2011 amounted to GBP11,079 (30 June 2010: GBP7,469 & 31 December 2010: GBP15,154). The total amount due and payable at the period end amounted to GBP3,750 (30 June 2010: GBP 3,740 & 31 December 2010: GBP3,750).

Other expenses

For the period ended 30 June 2011, other expenses include those of the CLO and AMIC. For the period ended 30 June 2010 and year ended 31 December 2010: CLO only.

Non-executive Directors' fees & executive Director's salary

As at 30 June 2011, each of the non-executive Directors had entered into an agreement with the Company providing for them to act as a Director of the Company.

As at 30 June 2011, the non-executive Directors' annual fees, excluding all reasonable expenses incurred in the course of their duties which were reimbursed by the Company, were as detailed in the table below:

| Non-executive Directors | **30 June 2011 GBP** | 31 December 2010 GBP |
|---|---|---|
| Patrick Firth (Chairman) | **40,000*** | 25,000 |
| Frederick Forni | **25,000** | 25,000 |
| James Carthew (appointed 17 May 2011) | **25,000** | N/A |
| Geoff Miller | **N/A** | 40,000 |

*Mr Firth's Director's fee increase from £25,000 per annum to £40,000 per annum on 28 April 2011 when he was elected as Chairman of the Board.

For the period to 31 March 2011, Mr Miller acted as non-executive Chairman of the Board and was entitled to an annual fee of £40,000. Total fees charged to the Group for the period ended 30 June 2011 amounted to GBP44,532 (30 June 2010: GBP33,750 & 31 December 2010: GBP110,000). The total amount due and payable at the period end amounted to GBP3,165 (30 June 2010: GBP22,500 & 31 December 2010: GBPnil). During the comparative year ended 31 December 2010, an additional one off payment of GBP20,000 was made to Mr Miller in recognition of special services provided to the Company.

Under an employment contract, effective from 31 March 2011, Mr Miller became an Executive Director of the Company and is entitled to a fixed salary of GBP150,000 per annum (less applicable tax and social security contributions). Mr Miller's salary cost is included in the Unaudited Consolidated Income Statement. The total salary cost for the period ended 30 June 2011 relating to Mr Miller amounted to GBP39,465.

In addition to the fixed salary referred to above, Mr Miller shall be entitled to a contractual bonus, details of which are available on the Company's website.

## 5. (DEFICIT)/EARNINGS PER ORDINARY SHARE

(Deficit)/earnings per Ordinary Share has been calculated by dividing the (loss)/profit attributable to Ordinary Share holders of GBP(3,072,780) (30 June 2010: GBP10,002,930 & 31 December 2010: GBP11,053,080) by the weighted average number of Ordinary Shares outstanding during the period of 96,692,494 (30 June 2010 & 31 December 2010: 87,300,000). Fully diluted (deficit)/earnings per Ordinary Share has been calculated by dividing the (loss)/profit attributable to Ordinary Share holders of GBP(3,072,780) (30 June 2010: GBP10,002,930 & 31 December 2010: GBP11,053,080), by the weighted average number of Ordinary Shares outstanding during the period adjusted for the effects of all dilutive potential Ordinary Shares of 96,742,494 (30 June 2010: 87,610,896 & 31 December 2010: 87,479,376).

### Basic earnings per Ordinary Share

| Date | No. of shares | No. of days | Weighted average no. of shares |
|---|---|---|---|
| 01/01/2011 | 87,300,000 | 31 | 14,951,934 |
| 31/01/2011 | 98,633,610 | 150 | 81,740,560 |
| 30/06/2011 | | 181 | 96,692,494 |
| 01/01/2010 & 31/12/2010 | 87,300,000 | 365 | 87,300,000 |
| 01/01/2010 & 30/06/2010 | 87,300,000 | 181 | 87,300,000 |

### Diluted earnings per Ordinary Share

| Date | No. of shares | No. of days | Weighted average no. of shares |
|---|---|---|---|
| 01/01/2011 | 87,350,000 | 31 | 14,960,497 |
| 31/01/2011 | 98,683,610 | 150 | 81,781,997 |
| 30/06/2011 | | 181 | 96,742,494 |
| 01/01/2010 | 87,905,555 | 85 | 20,471,157 |
| 26/03/2010 | 87,350,000 | 280 | 67,008,219 |
| 31/12/2010 | | 365 | 87,479,376 |
| 01/01/2010 | 87,905,555 | 85 | 41,281,614 |
| 26/03/2010 | 87,350,000 | 96 | 46,329,282 |
| 30/06/2010 | | 181 | 87,610,896 |

| | **30 June 2011 No. of shares** | 30 June 2010 No. of shares | 31 December 2010 No. of shares |
|---|---|---|---|
| Weighted average number of Ordinary Shares for the purposes of basic earnings per Ordinary Share | **96,692,494** | 87,300,000 | 87,300,000 |
| Effect of dilutive potential ordinary shares: | | | |
| Share options | **50,000** | 310,896 | 179,376 |
| Weighted average number of Ordinary Shares for the purposes of diluted earnings per Ordinary Share | **96,742,494** | 87,610,896 | 87,479,376 |

## 6. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **Unaudited Period to 30 June 2011 GBP** | Unaudited Period to 30 June 2010 GBP | Audited Year to 31 December 2010 GBP |
|---|---|---|---|
| Debt securities of listed companies | **33,020,506** | 41,180,141 | 46,648,497 |
| Debt securities of unlisted companies | **132,606,444** | 138,573,027 | 113,807,936 |
| Unlisted equity securities | **6,370,953** | 1,136,136 | 1,088,906 |
| | **171,997,903** | 180,889,304 | 161,545,339 |
| Realised gain/(loss) recognised on financial assets and liabilities at fair value through profit or loss (1) | | | |
| – Realised (loss)/gain on investments | **(237,602)** | 518,952 | 1,209,950 |
| – Realised gain on financial liabilities | **1,489,252** | – | – |
| | **1,251,650** | 518,952 | 1,209,950 |
| Unrealised gains recognised on financial assets and liabilities at fair value through profit or loss (2) | | | |
| – Unrealised (loss)/gain on financial assets | **(2,811,191)** | 20,286,446 | 19,390,006 |
| – Unrealised loss on financial liabilities | **(1,931,843)** | (11,917,954) | (11,852,457) |
| | **(4,743,034)** | 8,368,492 | 7,537,549 |

| | **Unaudited Period to 30 June 2011 GBP** | Unaudited Period to 30 June 2010 GBP | Audited Year to 31 December 2010 GBP |
|---|---|---|---|
| Opening cost of financial assets | **126,552,111** | 137,653,776 | 137,653,776 |
| Purchases/loans advanced | **70,728,472** | 37,282,651 | 80,166,361 |
| Transfers in* | **11,581,075** | – | – |
| Sales | **(20,895,191)** | – | (23,754,633) |
| Realised (loss)/gain on sale of investments | **(237,602)** | 518,952 | 1,209,950 |
| Capital repayments | **(47,912,999)** | (30,455,743) | (68,723,343) |
| Cost of investments at period/year end | **139,815,866** | 144,999,636 | 126,552,111 |
| Unrealised gain at period/year end | **32,182,037** | 35,889,668 | 34,993,228 |
| Closing value at period/year end | **171,997,903** | 180,889,304 | 161,545,339 |

* On acquisition of AMIC subsidiary

(1) For the six months to 30 June 2011, the Group had a realised gain of GBP1,251,650 (30 June 2010: realised gain of GBP518,952 & 31 December 2010: realised gain of GBP1,209,950) which comprised a realised loss on investments of GBP237,602 (30 June 2010: realised gain of GBP518,952 & 31 December 2010: realised gain of GBP1,209,950) and a realised gain on the sale of some of the CLO loan notes by the parent company, Greenwich Loan Income Fund Limited, of GBP1,489,252 (30 June 2010: realised gain of GBPnil & 31 December 2010: realised gain of GBPnil).

(2) For the six months to 30 June 2011, the Group had an unrealised loss on financial assets and liabilities at fair value through the profit and loss of GBP4,743,034 (30 June 2010: GBP8,368,492 gain & 31 December 2010: GBP7,537,549 gain). This is comprised of an unrealised loss on financial assets of GBP2,811,191 (30 June 2010: unrealised gain GBP20,286,446 & 31 December 2010: unrealised gain GBP19,390,006) and an unrealised loss on liabilities of GBP1,931,843 (30 June 2010: GBP11,917,954 loss & 31 December 2010: GBP11,852,457 loss).

## 7. TRADE AND OTHER RECEIVABLES

| | **Unaudited 30 June 2011 GBP** | Unaudited 30 June 2010 GBP | Audited 31 December 2010 GBP |
|---|---|---|---|
| Note receivable | **126,397** | 500,000 | 375,268 |
| Accrued bank interest | **–** | – | 147 |
| Investment sales receivable | **2,132,385** | – | – |
| Loan interest receivable | **386,944** | 715,745 | 363,035 |
| Prepaid expenses | **949,725** | 950,083 | 46,612 |
| | **3,469,054** | 1,665,828 | 409,794 |

The GBP126,397 (30 June 2010: GBP 500,000 & 31 December 2010: GBP375,268) note receivable relates to a promissory note that was originally 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 was subject to interest of 8% per annum, compounded annually. On 29 September 2009, it was agreed that payment on the promissory note be deferred (with interest ceasing to accrue from that date) until such time as the reduction in the aggregate fees paid by the Company to the Investment Manager, commencing 1 July 2010, is equal to the amount payable under the note, at which point the note will be cancelled. The note began to be repaid with effect from 30 September 2010. The promissory note has been classified as a current asset as at 30 June 2011.

During the year to 31 December 2009, the Company purchased some of the CLO loan notes from its subsidiary T2 Income Fund CLO I Ltd. At a Company level, the loan notes are designated as receivables held at amortised cost. These loan notes were sold to a third party in an arms length transaction during the period ended 30 June 2011.

## 8. CASH AND CASH EQUIVALENTS

| | **Unaudited 30 June 2011 GBP** | Unaudited 30 June 2010 GBP | Audited 31 December 2010 GBP |
|---|---|---|---|
| Call account | **26,992,252** | 17,691,004 | 36,668,950 |

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

## 9. TRADE AND OTHER PAYABLES

| | **Unaudited 30 June 2011 GBP** | Unaudited 30 June 2010 GBP | Audited 31 December 2010 GBP |
|---|---|---|---|
| **Non current liabilities** | | | |
| Loan notes at fair value through profit or loss | **132,390,947** | 129,272,947 | 129,207,450 |
| **Current liabilities** | | | |
| Administrator's fees | **42,271** | 12,864 | 39,609 |
| Custodian's fees | **3,750** | 3,740 | 3,750 |
| Audit fees | **37,307** | 20,000 | 50,000 |
| Directors' fees | **3,165** | 22,500 | – |
| Finance cost (1) | **336,581** | 416,055 | 340,538 |
| Other accruals | **177,701** | 214,546 | 206,249 |
| | **600,775** | 689,705 | 640,146 |

## 9. TRADE AND OTHER PAYABLES CONTINUED

The loan notes represent the indebtedness of the CLO. The CLO was created and the loan notes were issued as part of the Company's leveraging plan. On 19 July 2007, the loan notes were issued by the CLO in five tranches, Class A through E, and sold to third parties, as well as subordinated income loan notes which were issued to the Company at inception, representing the residual economic interest (i.e. the equity) in the CLO. The loan notes were issued in the total amount of US$309,050,000 with a twelve year term. In 2008, approximately US$380,000 of the Class A loan notes were repaid under the terms of the Indenture. The "Indenture" dated 19 July 2007 is among T2 Income Fund CLO I Ltd as the "Issuer", T2 Income Fund CLO I LLC as the "Co-Issuer" and The Bank of New York Mellon as the "Trustee".

During June 2009, the Company purchased from third parties some of the loan notes of its subsidiary, T2 Income Fund CLO 1 Ltd. Class B loan notes of par value US$1,137,000 and Class D loan notes of par value US$3,000,000 were purchased at a price of 0.435 and 0.1425 respectively. The internally purchased loan notes were eliminated within the comparative period's consolidated financial statements for consolidation purposes. During the current period ended 30 June 2011, the Company sold its holdings in the Class B loan notes of par value US$1,137,000 and Class D loan notes of par value US$3,000,000 to a third party at a price of 0.825 and 0.780 respectively.

(1) Interest on the loan notes is calculated on a weighted average interest rate of LIBOR plus 75 basis points.

## 10. SHARE CAPITAL

The Company has the power to issue an unlimited number of Ordinary Shares of no par value.

Upon incorporation, the Investment Manager, T2 Advisers LLC, was 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 vested and became exercisable in respect of 50 per cent immediately on conclusion of the first three month period during which the Company paid 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 vested and became 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 vested on 31 March 2008.

Effective 21 April 2008, the options to acquire 4,222,222 ordinary shares were cancelled in consideration of a one-off cash payment by the Company to the Investment Manager of GBP1.4 million. The amount of the payment was determined by the Board with reference to the present value of the options, with the application of a further discount, and after consultation with the Company's nominated advisor.

The Investment Manager was granted options to purchase 555,555 Ordinary Shares at 101.75p per Ordinary Share, the value of the original options granted was based upon the 5,000,000 Ordinary Shares issued in June 2007, in accordance with the terms of the Share Option Plan. Effective 26 March 2010, upon mutual agreement the 555,555 options were cancelled without additional payment as part of the restructuring of the investment management agreement.

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 GBP100,000. For the period ending 30 June 2011 the Company charged GBPnil (31 December 2010: GBPnil) to expenses representing the amortisation of the fair value of the options, which had been fully expensed during 2007 upon meeting the performance criteria.

On 17 July 2009, the Directors were granted options over 350,000 Ordinary Shares in total, exercisable at a price of 10p per share at any time up to the second anniversary of the passing of the relevant resolution. On 23 October 2009, 300,000 of these options were exercised. As at 30 June 2011, 50,000 options remained unexercised. Under IFRS2, the share options granted are measured at fair value at the grant date based on market prices. On exercise of the share options the change in fair value is also recognised and expensed in the Income Statement. There was no share option expense for the period ended 30 June 2011. During the period to 30 June 2011, a share option expense of GBPnil (31 December 2010: GBPnil) was recognised in relation to these share options issued.

On 1 February 2011, following the acquisition of AMIC, the Company issued 11,333,610 new Ordinary Shares at a value of 28.25p, being the mid-market closing share price of a GLIF Ordinary Share on 25 October 2010, the business day prior to the acquisition indicative offer announcement.

### 10. SHARE CAPITAL CONTINUED

| Share Capital | **Unaudited 30 June 2011 Shares in issue** | Unaudited 30 June 2010 Shares in issue | Audited 31 December 2010 Shares in issue |
|---|---|---|---|
| **Ordinary shares – nil par value** | | | |
| Balance at start of the period/year | **87,300,000** | 87,300,000 | 87,300,000 |
| Issued during the period/year | **11,333,610** | – | – |
| Balance at end of the period/year | **98,633,610** | 87,300,000 | 87,300,000 |

| Share Premium | **Unaudited Period to 30 June 2011 GBP** | Unaudited Period to 30 June 2010 GBP | Audited Year to 31 December 2010 GBP |
|---|---|---|---|
| Balance at start of the period/year | **16,087,290** | 16,087,290 | 16,087,290 |
| Issued during the period/year | **3,201,745** | – | – |
| Balance at end of the period/year | **19,289,035** | 16,087,290 | 16,087,290 |

### 11. NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary Share is calculated by dividing the total net assets attributable to Ordinary Share holders at the period end of GBP69,593,884 (30 June 2010: GBP70,783,484 & 31 December 2010: GBP69,151,755) by the Ordinary Shares in issue at the end of the period being 98,633,610 (30 June 2010 & 31 December 2010: 87,300,000).

### 12. CASH GENERATED FROM OPERATIONS

| | **Unaudited Period to 30 June 2011 GBP** | Unaudited Period to 30 June 2010 GBP | Audited Year to 31 December 2010 GBP |
|---|---|---|---|
| (Loss)/profit for the period/year | **(3,072,780)** | 10,002,930 | 11,053,080 |
| **Adjustments for:** | | | |
| Realised (gain)/loss arising on adjustment to financial assets and liabilities | **(1,251,650)** | (518,952) | (1,209,950) |
| Unrealised loss/(gain) arising on adjustment to financial assets and liabilities | **4,743,034** | (8,368,492) | (7,537,549) |
| **Changes in working capital:** | | | |
| Trade and other receivables | **(678,005)** | (465,263) | 915,504 |
| Trade and other payables | **(39,371)** | 81,275 | 31,715 |
| Cash (outflow)/inflow from operations | **(298,772)** | 731,498 | 3,252,800 |

### 13. CONSOLIDATED SUBSIDIARY UNDERTAKING

Through its 100% ownership of the residual economic interest in T2 Income Fund CLO I Ltd and the ownership of 100% of the equity shares of Asset Management Investment Company Limited, the Directors consider the following entities as a wholly owned subsidiaries of the Company and their results and financial positions are included within the consolidated results of the Group.

| | Date of incorporation | Country of incorporation | Nature of holding | Percentage holding |
|---|---|---|---|---|
| T2 Income Fund CLO I Ltd | 11 October 2006 | Cayman Islands | Income Notes | 100% |
| Asset Management Investment Company Limited | 13 April 1994 | United Kingdom | Equity Shares | 100% |

### 14. SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the internal reporting used by the Investment Committee of the Investment Manager ("ICIM"). The ICIM is responsible for allocating resources and assessing performance of the portfolio, as well as making strategic investment decisions, subject to the oversight of the Board of Directors. The ICIM is responsible for the entire portfolio, including assets held at the Company level as well as the portfolios of its CLO and AMIC subsidiaries, and considers the business to have a single operating segment. Although the CLO and AMIC are legally distinct entities, investment allocation decisions are based upon an integrated investment strategy and performance is evaluated on an overall basis.

The vast majority of the Group's investment income arises from investments in entities incorporated in the US. Approximately 96% of the Group's portfolio is based in the US with the remainder of investments being based in the UK. The Group has a highly diversified portfolio of investments and no single investment accounts for more than 10% of the Group's income.

The internal reporting provided to the ICIM for the Group's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of IFRS.

There were no changes in reportable segments during the period or prior year.

### 15. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties in addition to the related party transactions disclosed in note 4:

| | **Unaudited Period to 30 June 2011 GBP** | Audited Year to 31 December 2010 GBP | Unaudited Period to 30 June 2010 GBP |
|---|---|---|---|
| **Amounts incurred during the period/year to related parties** | | | |
| Fees to P Conroy as Chief Financial Officer to the Company | **62,500** | 125,000 | 62,500 |
| Fees to the Investment Manager, T2 Advisers, LLC | **2,045,198** | 3,990,969 | 1,988,648 |
| Reimbursement due to BDC Partners, LLC | **23,048** | 58,399 | 22,919 |
| **Amounts due from related parties at the period/year end** | | | |
| Note receivable from the Investment Manager, T2 Advisers, LLC | **126,397** | 375,268 | 500,000 |

On 18 December 2009, the Company acquired an investment in senior secured corporate notes, Koosharem 2nd Lien, from the CLO for US$8.55 million (GBP5.31 million). While on a consolidated basis the transaction had no net impact on the Group Unaudited Statement of Financial Position, the acquisition may improve the CLO's likelihood of being in compliance with certain covenants, and will have the effect of increasing the probability of the Company receiving future interest payments from the CLO.

On 9 November 2010, the Company acquired two investment holdings, both in Stratus Technologies Bermuda Limited, from the Subsidiary for aggregated proceeds of US$1.70 million (GBP1.06 million). On a consolidated basis this transaction had no net impact on the Group Unaudited Statement of Financial Position.

#### Directors shareholdings in the Company

As at 30 June 2011, the Directors had the following beneficial interests in the Ordinary Shares of the Company:

| | **Unaudited 30 June 2011** | | Audited 31 December 2010 | |
|---|---|---|---|---|
| | **No. of Ordinary Shares Held** | **% of total issued Ordinary Shares** | No. of Ordinary Shares Held | % of total issued Ordinary Shares |
| Patrick Firth (Chairman) | **100,000** | **0.10** | 50,000 | 0.06 |
| Geoff Miller | **812,627** | **0.82** | 500,000 | 0.57 |
| Frederick Forni | **–** | **–** | – | – |
| James Carthew (appointed 17 May 2011) | **175,000** | **0.18** | N/A | N/A |

At 30 June 2011, Frederick Forni held a share option for 50,000 Ordinary Shares (31 December 2010: 50,000 Ordinary Shares).

## 16. COMMITMENTS AND CONTINGENCIES

There were no commitments or contingencies as at 30 June 2011 (31 December 2010: none & 30 June 2010: none).

## 17. POST PERIOD END EVENTS

### Significant Portfolio Movements

Since the period end the Group has made the following investment purchases, these are detailed below:

| Closing Date | Par Amount | | Purchase Price US$ |
|---|---|---|---|
| 7 July 2011 | US$2,000,000 | Mercury Payment Systems | 99.00 |
| 8 July 2011 | US$4,000,000 | Embanet – Compass Knowledge Group Inc | 99.00 |
| 11 July 2011 | US$1,000,000 | Shield Finance (Sophos) | 99.50 |
| 13 July 2011 | US$4,000,000 | Alere US Holdings LLC | 99.50 |
| 26 July 2011 | US$1,997,750 | Securus Technologies Lnc | 100.00 |
| 3 August 2011 | US$5,940,000 | DG Fastchannel Inc | 99.00 |
| 8 August 2011 | US$4,948,339 | Biomet Inc | 99.63 |
| 18 August 2011 | US$1,000,000 | Alere US Holdings LLC | 99.50 |
| 19 August 2011 | US$2,500,000 | Phillips | 99.00 |
| 22 August 2011 | US$2,500,000 | Immucor | 96.00 |
| 1 September 2011 | US$2,000,000 | Immucor | 96.88 |
| Pending | US$500,000 | Phillips | 99.75 |

Since the period end the Company made the following sales:

| Closing Date | Par Amount | | Realised gain GBP |
|---|---|---|---|
| 9 August 2011 | US$200,000 | Charter Communication | 10,898 |

### Dividend

On 21 July 2011, the Directors declared a dividend of 1p per Ordinary Share for the second quarter of 2011. The dividend was payable to shareholders on the register on the record date of 29 July 2011 and physically paid to these shareholders on 12 August 2011.

There were no other significant post period end events that require disclose in these financial statements.

# PORTFOLIO STATEMENT OF THE GROUP
## AS AT 30 JUNE 2011

| US$ Loans – debt securities of listed companies | Principal Currency | Fair Value US$ | Fair Value GBP | % of net assets |
|---|---|---|---|---|
| Boise Paper | 3,432,314.6800 | 3,423,734 | 2,132,769 | 3.06% |
| Cablevision (CSC Holdings) | 3,037,654.3200 | 3,030,455 | 1,887,781 | 2.71% |
| Charter Communications | 164,523.6900 | 163,989 | 102,155 | 0.15% |
| Community Health Extended | 1,913,321.7600 | 1,866,044 | 1,162,427 | 1.67% |
| Community Health Non-Extended | 4,006,212.3600 | 3,867,678 | 2,409,318 | 3.46% |
| Dean Foods | 5,909,538.4400 | 5,737,807 | 3,574,290 | 5.14% |
| Emdeon Business Solutions | 5,946,199.5900 | 5,906,538 | 3,679,398 | 5.29% |
| Ford | 5,222,623.3400 | 5,216,356 | 3,249,458 | 4.67% |
| HCA Inc | 2,974,073.6200 | 2,955,129 | 1,840,858 | 2.65% |
| Mediacom TL-C | 3,917,948.7200 | 3,712,256 | 2,312,500 | 3.32% |
| Mediacom TL-D | 1,965,000.0000 | 1,957,631 | 1,219,480 | 1.75% |
| National Cinemedia | 5,000,000.0000 | 4,890,000 | 3,046,160 | 4.38% |
| Sally | 4,438,563.8400 | 4,429,864 | 2,759,524 | 3.96% |
| UniTek Global Services | 5,985,000.0000 | 5,850,338 | 3,644,388 | 5.24% |
| | | 53,007,819 | 33,020,506 | 47.45% |
| **US$ Loans – debt securities of unlisted companies** | | | | |
| 4437667 Canada Inc. (Mold Masters) | 5,390,670.9300 | 5,257,845 | 3,275,304 | 4.71% |
| Airvana Network Solutions Inc | 6,017,857.1500 | 6,078,036 | 3,786,230 | 5.44% |
| Anchor Glass | 3,975,253.0400 | 3,988,491 | 2,484,576 | 3.57% |
| Aramark Corp LC-1 US Term Loan Non-Extending | 1,754,112.8300 | 1,715,084 | 1,068,388 | 1.54% |
| Aramark Corp LC-2 Term Loan B Extended | 3,701,754.6300 | 3,683,653 | 2,294,682 | 3.30% |
| Atlantic Broadband Finance LLC | 3,679,439.1800 | 3,680,212 | 2,292,538 | 3.30% |
| AVG Holding Cooperatief UA | 6,000,000.0000 | 5,790,000 | 3,606,802 | 5.18% |
| BNY ConvergEx Group LLC | 1,125,000.0000 | 1,142,348 | 711,610 | 1.02% |
| CCC Information Services Inc | 2,985,000.0000 | 2,994,671 | 1,865,490 | 2.68% |
| Corel | 6,805,453.7400 | 6,657,980 | 4,147,499 | 5.96% |
| Decision Resources LLC - 1st Lien | 4,975,000.0100 | 4,954,254 | 3,086,186 | 4.43% |
| Decision Resources LLC - 2nd Lien | 2,666,666.6700 | 2,640,000 | 1,644,552 | 2.36% |
| Diversified Machine | 5,362,500.0000 | 5,201,625 | 3,240,282 | 4.66% |
| Fifth Third Processing Solutions LLC B1 | 5,970,037.5000 | 5,956,187 | 3,710,326 | 5.33% |
| First Data Corporation B-1 | 7,871,182.7000 | 7,283,835 | 4,537,367 | 6.52% |
| Georgia Pacific TL B | 2,330,107.0000 | 2,326,752 | 1,449,419 | 2.08% |
| Getty Images | 4,962,500.0000 | 4,983,591 | 3,104,461 | 4.46% |
| Goodman Global Inc | 5,969,924.8200 | 5,978,223 | 3,724,053 | 5.35% |
| HHI Holding LLC | 4,488,750.0100 | 4,488,750 | 2,796,206 | 4.02% |
| InfoNXX - 1st Lien | 6,685,000.0000 | 6,311,776 | 3,931,836 | 5.65% |
| InfoNXX - 2nd Lien | 3,000,000.0000 | 2,792,490 | 1,739,544 | 2.50% |
| Infor Global | 5,715,000.0000 | 5,543,550 | 3,453,280 | 4.96% |
| Merrill Corp 2nd Lien | 1,041,010.4200 | 1,037,887 | 646,538 | 0.93% |
| MLM Holdings Inc | 5,955,000.0000 | 5,940,113 | 3,700,313 | 5.32% |
| NameMedia (2) | 3,129,949.6900 | 3,051,701 | 1,901,016 | 2.73% |
| Nextag Inc | 5,525,000.0100 | 5,276,375 | 3,286,847 | 4.72% |
| Pegasus | 8,004,241.6700 | 7,829,189 | 4,877,088 | 7.01% |
| Presidio Inc. | 4,875,000.0000 | 4,862,813 | 3,029,224 | 4.35% |
| Proquest | 4,068,469.5000 | 4,054,230 | 2,525,528 | 3.63% |
| Provo Craft | 3,230,769.2300 | 1,534,615 | 955,968 | 1.38% |
| RBS Holding Company LLC | 5,985,000.0000 | 5,865,300 | 3,653,710 | 5.25% |
| Securus Technologies Inc | 3,600,000.0000 | 3,532,500 | 2,200,523 | 3.16% |
| Shearer's Foods | 3,950,000.0000 | 3,851,250 | 2,399,084 | 3.45% |
| Shield Finance Loan | 3,880,000.0100 | 3,889,700 | 2,423,036 | 3.48% |
| Ship Luxco | 5,000,000.0000 | 4,991,650 | 3,109,481 | 4.47% |
| SkillSoft | 2,935,158.9200 | 2,975,517 | 1,853,558 | 2.66% |
| SourceHov LLC | 4,000,000.0000 | 3,852,000 | 2,399,551 | 3.45% |
| Springboard Finance LLC | 5,523,534.2400 | 5,542,867 | 3,452,854 | 4.96% |
| Stratus Technologies 2nd Lien | 5,986,200.4200 | 3,801,237 | 2,367,930 | 3.40% |
| Sunquest Holdings (Misys) | 4,000,000.0000 | 3,990,000 | 2,485,517 | 3.57% |
| Targus Information Corporation | 5,775,000.0000 | 5,832,750 | 3,633,433 | 5.22% |
| Teleguam Holdings LLC | 2,000,000.0000 | 1,997,500 | 1,244,316 | 1.79% |
| Teleguam Holdings LLC | 2,812,500.0000 | 2,812,500 | 1,752,009 | 2.52% |
| Topps | 8,846,411.7600 | 8,315,627 | 5,180,108 | 7.44% |
| UI Holdings (CBA Group) (3) | 2,223,485.2700 | 2,167,896 | 1,350,463 | 1.94% |
| US TelePacific Corp | 3,991,030.9300 | 3,972,752 | 2,474,772 | 3.56% |
| Vision Solutions | 6,000,000.0000 | 5,970,000 | 3,718,932 | 5.34% |
| Koosharem (Select Remedy) 2nd lien | 9,000,000.0000 | 3,825,000 | 2,382,732 | 3.42% |
| Koosharem (Select Remedy) 2nd lien PIK | 1,790,689.0500 | 761,043 | 474,082 | 0.68% |
| | | 210,983,365 | 131,429,244 | 188.85% |
| **GBP Loans – debt securities of unlisted companies** | | | | |
| Lombardia Capital Partners LLC – Convertible Note | 500,000.0000 | N/A | 1,177,200 | 1.69% |
| Total Loans | | | 165,626,950 | 237.99% |

# PORTFOLIO STATEMENT OF THE GROUP CONTINUED
## AS AT 30 JUNE 2011

| Equity | Nominal | Fair Value US$ | Fair Value GBP | % of net assets |
|---|---|---|---|---|
| Stratus Technologies Bermuda Holdings Limited Series B1 Ordinary Shares | 775,631.8730 | 246,795 | 153,738 | 0.23% |
| Stratus Technologies Bermuda Holdings Limited Series B1 Preference Shares | 176,648.8226 | 1,453,205 | 905,254 | 1.30% |
| CBA Group (UI Acquisition Holding Co) Class A | 10.6267 | – | – | – |
| CBA Group (UI Acquisition Holding Co) Class B | 0.5542 | – | – | – |
| IFDC S.A. Group | 1,034.0000 | N/A | 5,000,000 | 7.18% |
| Lombardia Capital Partners LLC – Ordinary Shares | 265.0000 | N/A | 311,961 | 0.45% |
| Total Equity | | | 6,370,953 | 9.16% |
| **Warrants** | | | | |
| Koosharem – warrants to purchase 6,029 shares of common stock | 6,029.0000 | – | – | – |
| Total warrants | | | – | – |
| Total financial assets at fair value through profit or loss | | | 171,997,903 | 247.15% |
| Cash balances | | | 26,992,252 | 38.78% |
| Other net liabilities | | | (129,396,271) | (185.93%) |
| Net Assets | | | 69,593,884 | 100.00% |

**Greenwich** Loan Income Fund Limited

**Greenwich Loan Income Fund Limited**
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