29 August 2005

ASX Announcement

Appendix 4E & Annual Report for the period ended 30 June 2005

Please find attached the Company's audited Annual Report and Appendix 4E for the period ended 30 June 2005.

Ends.

Media enquiries:
Rex Comb
Executive Director
Babcock & Brown Capital Limited
Phone: +61 2 9229 1800

About Babcock & Brown Capital
www.babcockbrowncapital.com

Babcock & Brown Capital is an investment company that will focus on a concentrated portfolio with a flexible investment horizon. The Company may build positions in domestic and overseas, listed and private, entities. Babcock & Brown Capital will focus its efforts and work with management of these entities to grow their value over time. Investments will be held while they continue to meet the Company's investment objectives.

APPENDIX 4E

Preliminary Final Report

Name of entity: **Babcock & Brown Capital Limited (BCM)**
ABN: **31 112 119 203**

1. Details of the reporting period

Current Period: 8 December 2004 - 30 June 2005

Previous Corresponding Period: N/A (initial trading period)

2. Results for announcement to the market

		$A'00
2.1 Revenues from ordinary activities		11,480
2.2 Profit from ordinary activities after tax attributable to members		7,289
2.3 Net profit for the period attributable to members		7,289
2.4 Dividends (distributions)	Amount per security	Franked amount per security
Current Period:		
Final distribution	nil	N/A
Interim distribution	nil	N/A
Previous Corresponding Period:		
Final distribution	N/A	N/A
Interim distribution	N/A	N/A

2. Results for announcement to the market (continued)

2.5 Record date for determining entitlements to the dividend / distribution	N/A

2.6 Provide a brief explanation of any of the figures reported above necessary to enable the figures to be understood:
Total operating revenue represents interest income earned on cash deposits invested in financial institutions with short-term ratings of A-1+ or A-1. The weighted average interest rate earned for the period was 5.71%.

3. Statement of Financial Performance with notes

Refer Statement of Financial Performance in the attached financial statements.

4. Statement of Financial Position with notes

Refer Statement of Financial Position in the attached financial statements.

5. Statement of Cash Flows with notes

Refer Statement of Cash Flows in the attached financial statements.

6. Details of dividends/distributions

Not Applicable. No dividend was declared

7. Details of dividend reinvestment plan

Not Applicable. No dividend was declared

8. Statement of retained earnings showing movements

Refer attached financial statements (Note 13: Retained Profits).

9. Net asset backing per security

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	$2.50	N/A

The above net tangible asset calculation excludes the second instalment of $2.50 per share due on 4 February 2006.. This instalment can be extended for up to six months by Babcock & Brown Capital Limited directors.

10. Control gained or lost over entities during the period

10.1 Name of entity (or group of entities) over which control was gained	N/A
10.2 Date control was gained	N/A
10.3 Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) since the date in the current period on which control was acquired	N/A
10.4 Profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period	N/A

10.1 Name of entity (or group of entities) over which control was lost	N/A
10.2 Date control was lost	N/A
10.3 Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the current period to the date of loss of control	N/A

11. Details of associates and joint venture entities

Not Applicable.

12. Other significant information

Refer attached Directors' Report.

13. Accounting standards used by foreign entities

Refer Note 1 of the financial statements "Statement of Accounting Policies"

14. Commentary on results

	Current period	Previous corresponding period
14.1 Earnings per share	3.6¢	N/A

Earnings per share (EPS) shown has been calculated from the Company's listing date of 14 February 2005. The basic and diluted EPS for the period from 8 December 2004 to 30 June 2005 was 5.1¢, which results from the reduction in weighted average number of shares. Weighted average number of shares for the period from 8 December 2004 to 30 June 2005 is 143,414,634, given that there were only 2 shares on issue prior to the initial public offering.

	$A'000	**$A'000**
14.2 Returns to shareholders: Dividends	nil	N/A

No dividends were paid or recommended during the period.

	$A'000	**$A'000**
14.3 Significant features of operating performance and trends in operating performance:		
Income		
Interest income	11,480	N/A
Total revenue from ordinary activities	11,480	
Expenses		
Manager's administration expenses	439	
Auditor's Remuneration	117	
Directors' fees	136	
Project and deal costs	749	
Other operating expenses	240	
Total operating expenses from ordinary activities	1,681	

14. Commentary on results *(continued)*
OVERVIEW OF OPERATING PERFORMANCE With the Company's assets remaining uninvested, revenue was limited to interest income on the IPO proceeds. Revenue of $11.48 million was generated from cash on deposit at an average rate of 5.71%. Operating expenses of $1.68 million were incurred for the management of the Group and sourcing investments locally and abroad. Income tax was $2.51 million. Profit from ordinary activities after tax attributable to shareholders for the period from 8 December 2004 to 30 June 2005 was $7.29 million. This represents earnings per share of 3.6 cents for the period.
14.4 Segment results: Refer attached financial statements. BCM had only one business segment, being that of an investment company and operated in Australia as a geographic location. (Note 16: Segment Reporting).
14.5 Trends in performance: Refer to 14.3.
14.6 Other factors: No other significant factors to report.

15. International Financial Reporting Standards ("IFRS")

The financial statements includes a note to the financial statements describing the impacts of adopting Australian Equivalents to International Financial Reporting Standards. (Note 23: International Financial Reporting Standards).

16. Audit / review of accounts upon which this report is based

This report is based on accounts to which one of the following applies (*tick one*):

☑	The accounts have been audited. (refer attached financial statements)	☐	The accounts have been subject to review. (refer attached financial statements)
☐	The accounts are in the process of being audited or subject to review.	☐	The accounts have *not* yet been audited or reviewed.

17. Qualification of audit

Not applicable.

BABCOCK & BROWN

Annual Report 2005

BABCOCK & BROWN CAPITAL LIMITED AND CONTROLLED ENTITIES

ABN 31 112 119 203

FOR THE PERIOD 8 DECEMBER 2004 TO 30 JUNE 2005

Contents

Babcock & Brown Securities Pty Ltd ACN 003 080 840 (BBS) is the Management Company for the Company under a Management Agreement dated 20 December 2004. Under that agreement, Babcock & Brown Capital Management Pty Ltd ACN 112 118 144 (BBCM) will replace BBS as the Management Company once it has been issued with an appropriate Australian Financial Services Licence. The Management Agreement is therefore an agreement between the Company, BBS and BBCM.

Investments in the Company are not investments in, deposits with or other liabilities of Babcock & Brown Limited, or any entity in the Babcock & Brown Group and are subject to investment risk, including loss of income and capital invested. Neither BBS nor BBCM, nor any member of the Babcock & Brown Group, guarantees the performance of the Company, the repayment of capital or the payment of a particular rate of return on the Company's shares.

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

The Company's consolidated financial report has been prepared to enable the Company to comply with its obligations under the Corporations Act and to ensure compliance with the ASX Listing Rules and satisfy the requirements of the Australian accounting standards. The responsibility for preparation of the consolidated financial report and any financial information contained in this annual report rests solely with the Directors of the Company.

Chairman's Report

Welcome to the first annual report of Babcock & Brown Capital Limited (B&B Capital). B&B Capital listed on the Australian Stock Exchange on 14 February this year after a successful public offering.

B&B Capital is an investment company managed by a wholly-owned subsidiary (the Management Company) of the Babcock & Brown Group. B&B Capital will focus on a concentrated portfolio with a flexible investment horizon. The Company may build positions in domestic and overseas, listed and private, entities. B&B Capital and the Management Company will work with management of these entities to build value over time. Investments will be held while they continue to meet the Company's investment objectives.

The Management Company's scope, as outlined in the Prospectus, is to look at investments primarily across four areas – consolidation, break-up, restructuring and expansion capital. It has adopted a flexible investment style and is likely to invest in situations that will require active involvement to create value.

The Management Company has investigated numerous companies and businesses in Australia and overseas. A number of opportunities have been discussed with the Board but no investment has been made.

It is worth noting that many markets around the world, including Australia, are trading at record levels. Since the start of the year to 30 June 2005, the Australian ASX 200 index has risen 5.6%, the MSCI Asia Index (ex Japan) has risen 4.6%, the MSCI UK Index has risen 6% and the MSCI Europe Index (ex the UK) has risen 9.3%.

The Management Company is therefore looking at a variety of avenues to find the right investment. The Board will not invest B&B Capital's funds where they do not believe it will create shareholder wealth. The Board remains confident that over the coming months suitable investments will be identified based on our risk management approach.

Investment of capital to date has been placed in short-term deposits with major banks with short-term credit ratings of A-1+ and A-1. This has resulted in a profit after tax of $7.29 million in the period to 30 June 2005. In line with the Company's focus on capital appreciation, no dividend has been declared.

In accordance with the Prospectus, the Management Company is not currently charging management fees (other than cost reimbursement) and will not begin to do so until 30% or more of B&B Capital's total funds have been invested.

The second instalment of $2.50 per share is payable on 4 February 2006. The date of this instalment can be extended by up to six months at the Board's discretion. No decision has been made in this regard. The Board will review the situation closer to the scheduled time and will extend the date if the company believes this is appropriate. We shall advise you of this decision in good time.

I apologise to shareholders, especially private investors, for the length and complexity of this report and financial statements. The law requires what we have produced notwithstanding this being a simple company. Over the next twelve months we shall seek approval to be able to provide you with a summary or overview document that will be simpler and I believe more useful for you to understand how your investment is performing.

ROBERT CHAMPION de CRESPIGNY AC *Chairman*

29 August 2005

Management Overview

Babcock & Brown Capital Limited is managed by a wholly-owned subsidiary (the Management Company) of the Babcock & Brown Group, a global investment and advisory firm listed on the Australian Stock Exchange.

The Management Company is currently known as Babcock & Brown Securities Pty Limited until Babcock & Brown Capital Management Pty Ltd secures its Australian Financial Services Licence (AFSL).

Once this licence is secured, Babcock & Brown Capital Management Pty Ltd will provide the management services to Babcock & Brown Capital Limited.

Rex Comb is Chief Executive Officer of Babcock & Brown Capital Management Pty Ltd and is Executive Director of Babcock & Brown Capital Limited.

Chief Executive Officer's Report

As Chief Executive Officer of the Management Company and Executive Director of Babcock & Brown Capital Limited, I am pleased to present this maiden report for B&B Capital.

Following the IPO earlier this year and the Company's listing on the Australian Stock Exchange on 14 February, the Management Company has looked at several investment opportunities in Australia and overseas.

After appropriate investigation none of the companies or projects were deemed as potential investments at this time. Our investment mandate is a wide-ranging one and our search for investment opportunities continues on a daily basis. The goal is to achieve risk-adjusted returns over the long term consistent with the Company's investment objective.

We do not intend to overpay and plan to consider any investment with a medium to long-term horizon in mind.

Financially, the Company is in an excellent position to move forward with a post-tax net tangible asset backing per share at 30 June 2005 of $2.50. The total capital raised under the IPO was $1 billion through the issue of 200 million shares with an issue price of $5.00, paid to $2.50. Share issue costs totalled $23.15 million.

Revenue of $11.48 million was generated from earnings on funds invested at an average interest rate of 5.71%. Capital was invested in major banks with short-term credit ratings of A-1+ or A-1.

Operating expenses for the period were $1.68 million which was incurred for management of the Group and sourcing investments in Australia and overseas. After tax profit was $7.29 million, representing earnings for each share of 3.6 cents.

No management or performance fees have been paid to any other Babcock & Brown entity or company during the period. Payments have been for the reimbursement of costs incurred.

As stated, I believe we are in an excellent position to move forward in the coming months and look forward to your continued support.

REX COMB *Chief Executive Officer of the Management Company*

29 August 2005

Corporate Governance Statement

In March 2003 the Australian Stock Exchange (ASX) Corporate Governance Council published its 'Principles of Good Corporate Governance and Best Practice Recommendations' (the Recommendations).

Babcock & Brown Capital Limited (the Company) and its controlled entities (the Group) together with the Board are committed to achieving best practice in the area of corporate governance and business conduct. An extensive review of the Group's corporate governance framework was completed in May 2005 in light of the Recommendations. The Group's framework was largely consistent with the Recommendations.

The Group's Corporate Governance Statement has been presented in a format consistent with the Recommendations and outlines the main corporate governance principles and practices followed by the Company.

In addition to the information presented below, the charters, codes and policies of the Group are available on the corporate governance section of the Company's website – www.babcockbrowncapital.com.

Principle 1: Lay solid foundations for management and oversight

The Board represents shareholders and has the ultimate responsibility for managing the Group's business and affairs to the highest standards of corporate governance and business conduct. The Board operates in accordance with the formal Board Charter which establishes the duties and responsibilities of the Board.

As outlined in the Board Charter, the Board is responsible for the management of the affairs of the Group, including:

- Developing, approving and monitoring the corporate strategy, financial plans and objectives of the Group;
- Determining the Company's dividend policy and approving major capital expenditure, capital management and all major acquisitions, divestitures and corporate transactions of the Group;
- Appointing, monitoring and removing the Chairman and other members of the Board;
- Approving all accounting policies, financial reports and material reporting of the Group;
- Approving and monitoring delegations of authority;
- Establishing the goals and objectives for the Board and its Committees each year;
- Reviewing the performance of the Board, each Board Committee and each individual Director against the relevant Charters, corporate governance policies and agreed goals and objectives;
- Reviewing the remuneration of the Company's Executive and Non-Executive Directors;
- Ensuring that effective audit, risk management and regulatory compliance programs are in place to protect the Group's assets and shareholder value; and
- Reviewing the performance and effectiveness of the Group's corporate governance policies and procedures.

A copy of the Board Charter is available on the Company's website.

The Board Charter also establishes the specific powers and responsibilities of the Chairman and the Chief Executive Officer of the Management Company.

The Board is assisted in its management of the affairs of the Company by the Management Company, Babcock & Brown Securities Pty Ltd. In accordance with the Management Agreement with the Company, the Management Company in conjunction with the Board, has defined corporate objectives which the Management Company is responsible for meeting. These objectives include identifying and recommending investment opportunities for the Company, managing the Company's investments and advising in respect of any exit from those investments. In addition to these strategic objectives, the Management Company has specific operational management duties and carries out management services of the Company on a day-to-day basis.

The Management Company's appointment is exclusive to the Management Company and is for a term of 25 years. Management fees payable under the agreement are set out in Note 19 to the Financial Statements: "Related Parties".

To assist Directors to understand the Company's expectations of them, all Non-Executive Directors have been issued with formal letters of appointment and Executive Directors have formal letters governing their employment through the Babcock & Brown Group.

To assist the Board in carrying out their responsibilities, the Board has established a number of Committees which act primarily in a review or advisory capacity. These are discussed in Principle 2.

Principle 2: Structure of the Board to add value

Board of Directors

The Board comprises two independent Non-Executive Directors and three Executive Directors. The Chairman of the Board, Robert Champion de Crespigny AC, is a Non-Executive Director.

The members of the Board of Directors as at the date of this report are set out below, together with details of their qualifications, experience, other responsibilities and holdings of shares in the Company.

Corporate Governance Statement continued

ROBERT CHAMPION de CRESPIGNY AC
Chairman – Non-Executive Director
Robert holds the position of Non-Executive Chairman of Primelife Corporation Limited and Buka Minerals Limited and is Chairman of the Economic Development Board of South Australia. Robert was the former Chairman and Chief Executive Officer of Normandy Mining Limited. Robert founded Normandy in 1985 and grew it into Australia's largest gold producer. Normandy was listed on both the Australian and Toronto stock exchanges. Normandy was acquired by Newmont Mining in 2002. Also in 2002, Robert was awarded the Companion of the Order of Australia Medal (AC). Robert has also held the position of Chancellor of the University of Adelaide. Robert has been awarded a Doctorate of the University of Adelaide, he holds a Bachelor of Commerce from the University of Melbourne and is a fellow of the Institute of Chartered Accountants. He is based in Adelaide.

For the three years to 30 June 2005, Robert held the following directorships in Australian listed companies:

Company	Dates
Primelife Corporation Limited	June 2003 to present
Buka Minerals Limited	February 2004 to present
Babcock & Brown Capital Limited	December 2004 to present

Special responsibilities
Chairman of the Remuneration Committee
Chairman of the Nomination and Governance Committee
Member of the Audit & Risk Management Committee

Babcock & Brown Capital Limited shares held: 4,000,000
Babcock & Brown Capital Limited options held: 1,500,000

WILLIAM WAVISH
Non-Executive Director
William is the Principal of Wavish Associates Investments, the Chairman of Housewares International Ltd and a Director of Atlas Group Holdings Limited. He was a Director of Woolworths Limited, where he held several executive positions including Director of Woolworths Supermarkets Group, Finance Director and Chief Financial Officer. William has held a range of Chief Executive, Chief Operating Officer, Chief Financial Officer and Chairman positions in Australia and Hong Kong covering supermarkets and retailing, pharmacy, manufacturing, fast moving consumer goods, property development and acquisitions. These positions include Chief Financial Officer and Chief Operating Officer for Hong Kong, China and north Asia of the supermarket and food manufacturing Dairy Farm Group, south-east Asia's largest retailer. William has also held the position of Chief Operating Officer of Hongkong Land International. He is a Chartered Accountant (New Zealand). He is based in Sydney.

For the three years to 30 June 2005, William held the following directorships in Australian listed companies:

Company	Dates
Woolworths Limited	June 2000 to May 2003
Housewares International Limited	November 2004 to present
Atlas Group Holdings Limited	December 2004 to present
Babcock & Brown Capital Limited	December 2004 to present

Special responsibilities
Chairman of the Audit & Risk Management Committee
Member of the Remuneration Committee
Member of the Nomination and Governance Committee

Babcock & Brown Capital Limited shares held: nil
Babcock & Brown Capital Limited options held: 1,000,000

REX COMB

Executive Director

Rex was appointed as an Executive Director of Babcock & Brown Capital Limited in December 2004. Rex also holds the position of Managing Director and Chief Executive Officer of Babcock & Brown Capital Management Pty Ltd, the company which is contracted to succeed the current Management Company upon receipt of an AFS Licence. Before this, Rex was Group Managing Director of Linfox Logistics for nearly four years, beginning in September 2000. Rex is also a former Managing Director of Mattel Australia Ltd. Rex holds a Bachelor of Business and a Master of Business Administration from Melbourne Business School. He is a Fellow of the Australian Institute of Company Directors and a Fellow of CPA Australia. He is based in Melbourne.

For the three years to 30 June 2005, Rex held the following directorships in Australian listed companies:

Company	Dates
Babcock & Brown Capital Limited	December 2004 to present

Special responsibilities

Chief Executive Officer of the Management Company
Member of the Nomination and Governance Committee

Babcock & Brown Capital Limited shares held: nil
Babcock & Brown Capital Limited options held: nil

PHILLIP GREEN

Executive Director

Phillip is Managing Director of Babcock & Brown Limited and joined the Babcock & Brown Group in 1984. Prior to joining Babcock & Brown, Phillip worked as a senior manager with Arthur Andersen where he specialised in taxation. Phillip is also Chairman of Babcock & Brown Infrastructure Limited, Babcock & Brown Environmental Investments Limited and of the responsible entity of MTM Entertainment Trust, and is a Director of Babcock & Brown Japan Property Management Limited as responsible entity for Babcock & Brown Japan Trust, Limited, Everest Babcock & Brown Alternative Investments, Abacus Group Holdings and Thakral Holdings Limited. Phillip holds Bachelor of Commerce and Bachelor of Law degrees from the University of New South Wales. He qualified as a Chartered Accountant in 1981 and was admitted as a solicitor in NSW in 1978. He is based in Sydney.

For the three years to 30 June 2005, Phillip held the following directorships in Australian listed companies:

Company	Dates
MTM Entertainment Trust	July 2001 to present
Thakral Group Holdings	February 2004 to present
Babcock & Brown Environmental Investments Limited	June 2002 to present
Abacus Group Holdings	October 2002 to present
Primelife Corporation Limited	February 2004 to June 2005
Babcock & Brown Limited	April 2004 to present
Babcock & Brown Capital Limited	December 2004 to present
Babcock & Brown Japan Trust	January 2005 to present

Special responsibilities

Member of the Nomination and Governance Committee

Babcock & Brown Capital Limited shares held: 1,600,001
Babcock & Brown Capital Limited options held: nil

Corporate Governance Statement continued

ROBERT TOPFER
Executive Director
Robert is the Executive Chairman of Babcock & Brown Capital Management Pty Limited. Robert co-ordinates Babcock & Brown's Corporate Principal Investment and Funds Management activities worldwide. He joined the Babcock & Brown Group in 2000 and prior to this Robert was a founding partner of the law firm Atanaskovic Hartnell and before that a partner of Allen Allen & Hemsley. Robert is also a Director of Assetinsure Limited, Commander Communications Limited, Linfox Australia Limited, MTM Funds Management Limited and Primelife Corporation Limited. Robert holds a Bachelor of Law and Arts degree from the Australian National University. He is based in Sydney.

For the three years to 30 June 2005, Robert held the following directorships in Australian listed companies:

Company	Dates
ERG Limited	October 2002 to January 2005
Commander Communications Limited	August 2003 to present
Primelife Corporation Limited	December 2003 to present
Babcock & Brown Capital Limited	December 2004 to present

Special responsibilities
Member of the Nomination and Governance Committee

Babcock & Brown Capital Limited shares held: 400,001
Babcock & Brown Capital Limited options held: nil

Board Composition
The composition of the Board is based on the following principles:

- The Board will comprise a minimum of five Directors with a broad range of skills, expertise and experience;
- The Chairman is a Non-Executive Director and independent from Babcock & Brown Limited;
- At all times the Board will include at least two independent Directors, with preference for a majority of independent Directors, or at least equal number of independent Directors to non-independent Directors;
- As at the date of this report, the Board includes three Executive Directors, each nominated by Babcock & Brown Limited;
- While there is a majority of non-independent Directors, if requested by an independent Director in respect of any Board resolution, one of the non-independent Directors must abstain from voting. The Chairman has the casting vote in the event of an equality of votes cast; and
- The continued tenure of each individual Director is subject to re-election from time to time in accordance with the Company's constitution and ASX Listing Rules.

Directors' Independence
The Board Charter has adopted a definition of independent Director that is consistent with that set out in Recommendation 2.1. The Board Charter states that the Company will regard a Non-Executive Director as independent provided they are free of any business or other relationship which could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.

A Non-Executive Director will be considered to be independent if he or she:

- Is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- Within the past three years has not been employed in an executive capacity by the Company or another Group member, or been a Director after ceasing to hold such employment;

- Within the past three years has not been:
  - A principal of a material professional adviser to the Group;
  - A material consultant to the Group; or
  - An employee materially associated with the service provided by such an adviser or consultant;
- Is not a material supplier or customer of the Group or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- Has no material contractual relationship with the Group other than as a Director of the Company;
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

The Board has determined materiality thresholds for assessing the independence of Directors. Under those thresholds, a person will be regarded as a substantial shareholder if they hold 5% or more of the Company's voting shares. An adviser will be regarded as a material professional adviser or consultant where the billings are more than 5% of the Company's total advisory fees or more than 5% of the professional adviser's total revenue. A supplier will be a material supplier where the Company accounts for more than 5% of the total revenue of the supplier. A customer will be a material customer where the Company accounts for more than 5% of the Company's total revenue. Whether or not a material contractual relationship exists, will be determined on an individual case-by-case basis, consistent with these thresholds.

From 8 December 2004 to 30 June 2005, the Board had six members comprising two independent Directors and four non-independent Directors. These are shown below in the following table:

Name	Position	Independent (Yes/No)	First Appointed
Robert Champion de Crespigny AC	Non-Executive Chairman	Yes	17 December 2004
William Wavish	Non-Executive Director (Deputy Chairman)	Yes	17 December 2004
Rex Comb	Executive Director	No	17 December 2004
Phillip Green	Executive Director	No	8 December 2004
Robert Topfer	Executive Director	No	8 December 2004
Andrew Tyndale	Executive Director	No	8 December 2004, resigned 17 December 2004

Corporate Governance Statement continued

The Board Charter provides that the Board will include at least two independent Directors, with preference for a majority of independent Directors, or at least an equal number of independent and non-independent Directors. It is therefore the Board's intention to appoint another independent Non-Executive Director at a time appropriate to the Group's development.

Board Committees
The Board conducts a number of its duties and responsibilities through the use of specific Board Committees. These Board Committees are:

- Audit and Risk Management Committee – refer Principle 4
- Remuneration Committee – refer Principle 9
- Nomination and Governance Committee – refer below

The Board Committees are governed by charters that have been approved and will be regularly reviewed by the Board.

Nomination and Governance Committee
The Board has established a Nomination and Governance Committee which is responsible for advising the Board on the composition of the Board and its Committees, reviewing the performance of the Board, its Committees and individual Directors, and advising the Board on the appropriate corporate governance standards and policies. In making recommendations to the Board regarding the appointment of Directors, the Committee will periodically assess the appropriate mix of skills, experience and expertise required on the Board and assess the extent to which those skills and experience are represented.

The Committee, which consists of all five current Directors, meets as required but not less than once a year. The Committee met once from 8 December 2004 to 30 June 2005 and all members of the Committee attended the meeting.

The Committee has adopted a Charter, which is available on the Company's website. The primary duties and responsibilities of the Committee are set out in the Charter and include:

- Reviewing the size and composition of the Board and establishing the criteria for Board membership;
- Proposing candidates for directorships for consideration by the Board having regard to the desired composition as stated in the Board Charter;
- Establishing and facilitating an induction program for new Directors and making available to them sufficient information and advice to allow them to participate fully and actively in Board decision-making at the earliest opportunity;
- Critically reviewing the performance and effectiveness of the Chairman, the Board and its Committees;
- Ensuring that proper succession plans are in place in respect of senior management of the Company for consideration by the Board;
- Informing the Board of the names of Directors who are retiring in accordance with the provisions of the Constitution of the Company and make recommendations to the Board as to whether the Board should support renomination of that retiring Director;
- Advising the Board on corporate governance standards and on the adoption or amendment of corporate governance policies that would be appropriate for the Group; and
- Critically reviewing the Group's performance against its corporate governance policies.

Independent Advice
In accordance with the Board Charter, a Director of the Company is entitled to seek independent professional advice, including, but not limited to, legal, accounting and financial advice, at the Company's expense on any matter connected with the discharge of his or her responsibilities. The cost, nature and details of such advice must first be approved by the Chairman of the Board or the relevant Committee Chairman. The Chairman or Committee Chairman may determine that any advice received by an individual Director will be circulated to the remainder of the Board or the relevant Committee.

Principle 3: Promote ethical and responsible decision-making

The Board recognises the need to observe the highest standards of corporate practice and business conduct. To this end, the Company has established a formal Code of Conduct which requires Directors of the Company and management of the Management Company to adopt high ethical standards in all of the Company's activities.

The Code of Conduct is discussed in further detail under Principle 10.

Share Trading Policy

The Company has in place a formal Share Trading Policy which regulates the manner in which Directors and employees can buy or sell shares in the Company and other securities related to the performance of the shares, and requires that they conduct their personal investment activities in a manner that is lawful and avoids conflicts between their own interests and those of the Group.

The policy is specifically designed to raise awareness and minimise any potential for breach of regulations relating to insider trading contained in the Corporations Act. The policy is also designed to minimise the chance that misunderstandings or suspicions arise regarding employees trading while in possession of non-public price-sensitive information. The policy is applicable to all Directors and employees of the Company as well as all Directors and employees of the Babcock & Brown Group, which exerts control over the Management Company.

The policy specifies trading windows as the periods during which trading shares can occur. These trading windows will generally be the two week period following the release of the Group's full year or half-year results, the one month following the Company's Annual General Meeting, and the offer period under any prospectus. Trading is prohibited despite a window being open if the relevant person is in possession of non-public price-sensitive information regarding the Group. The Board may authorise the opening of trading windows at other times.

Further, the Company also has a policy which regulates the manner in which the Directors and employees may buy or sell shares in other companies, which may be affected by the activities of the Group. This policy is called the Employee Investment Policy.

A copy of the Share Trading Policy is available on the Company's website.

Principle 4: Safeguarding integrity in financial reporting

Chief Executive Officer and Chief Financial Officer Sign-off

The Chief Executive Officer and Chief Financial Officer of the Management Company have provided written statements to the Board that the Group's financial statements present a true and fair view in all material respects of the Group's financial position and that operational results are in accordance with the relevant accounting standards.

Audit & Risk Management Committee

The Audit & Risk Management Committee assists the Board in fulfilling its corporate governance and oversight responsibilities relating to financial accounting practices, risk management and internal control systems, external reporting, monitoring compliance and the external audit function.

The Committee provides advice to the Board and reports on the status of the business risks to the Group through its risk management processes, aimed at ensuring risks are identified, assessed and properly managed. The Committee works on behalf of the Board with the external auditors and reviews non-audit services provided by the external auditor to confirm that they are consistent with maintaining external audit independence.

The primary duties and responsibilities of the Committee are set out in the Charter and include:

- Reviewing the external auditor's proposed audit plan and approach;
- Reviewing the performance of the external auditors and consider the re-appointment and proposed fees of the external auditor and, if appropriate, conduct a tender of the audit. This review may be conducted in the presence of management at the request of the Committee;
- Reviewing and confirming the independence of the external auditor by obtaining statements from the auditor on relationships between the auditor and the Group, including non-audit services;
- Reviewing the financial statements for the half-year and full year and considering whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting policies and principles;
- Reviewing the effectiveness of the Group's internal controls regarding all matters affecting the Group's financial performance, financial reporting and regulatory compliance;
- Reviewing reports provided to the Audit & Risk Management Committee from management or the external auditors;
- Meeting separately from management with the external auditor at least once per year to discuss any matters that the Committee or auditor believe should be discussed privately; and
- Evaluating the overall risk quality of the risk management systems established and assessing their continued and effective operation to ensure that the

Corporate Governance Statement continued

Group satisfies sound corporate governance principles and minimises/mitigates key risk exposures and incidents.

A copy of the Audit & Risk Management Committee Charter is available on the Company's website.

The Committee consists of William Wavish (who is Chairman) and Robert Champion de Crespigny. Both members have comprehensive financial expertise. It is expected that a third independent, Non-Executive Director will be appointed when that person is appointed to the Board of Directors of the Company. Until such time, the Board is considering the appointment of an independent audit professional to join the Committee.

The Committee generally meets as required but normally not less than four times per year and reports to the full Board following each meeting, including any recommendations from the Committee that require Board approval or action. The Committee met once to 30 June 2005.

The Babcock & Brown Group has appointed a Group Risk Manager. The responsibilities of this position include the implementation of a risk management framework for the Group and the Management Company. This is discussed further in Principle 7.

Principle 5: Make timely and balanced disclosure

Continuous Disclosure and Communications Policy

The Company is committed to complying with its continuous disclosure obligations pursuant to the ASX Listing Rules and the Corporations Act, and the Company has in place well developed procedures for ensuring compliance.

The Company has a Continuous Disclosure and Communications Policy consistent with the continuous disclosure obligations of the ASX and the Corporations Act which sets out the standards, protocols and requirements expected of all Directors, management, employees and officers of the Group.

The policy is designed with the intention of ensuring that all investors have equal and timely access to information concerning the Group, and to ensure that price-sensitive information from any part of the Group is immediately notified to the ASX in a complete, balanced and timely manner.

The Company has established a Continuous Disclosure and Communications Committee comprising the Chairman of the Board, the Chief Executive Officer of the Management Company (who has been appointed as the Chair of the Committee), an Executive Director and legal counsel. The Committee is responsible for reviewing information, making disclosures to the ASX and issuing media releases and other written public statements on behalf of the Company.

The Company has also designated management personnel as reporting officers. These reporting officers are appointed for the purpose of ensuring that material information from their respective areas of responsibility is brought to the attention of the Committee. In order to facilitate this control, any information from the reporting officers is gathered by the Company Secretary and included in a written statement to the Chairman of the Committee on a monthly basis, describing any matters they might perceive to price sensitive.

In addition to the Continuous Disclosure and Communications Committee, the Board is actively and regularly involved in discussing disclosure obligations in respect of all relevant matters that come before it.

A copy of the Continuous Disclosure and Communications Policy is available on the Company's website.

Principle 6: Respect the rights of shareholders

Communication with Shareholders

The Company is committed to communicating with its shareholders in an effective and timely manner to provide them with ready access to information relating to the Group. The Company has a Continuous Disclosure and Communications Policy which recognises the importance of maintaining effective communications with shareholders and keeping them informed about strategic objectives and major developments.

In addition to the Continuous Disclosure and Communications Policy, the Company maintains a website (www.babcockbrowncapital.com) which provides access to the following information of interest to shareholders:

- All Company announcements and media releases, which are posted to the website promptly following release;
- Copies of full-year, half-year and interim financial reports;
- Summaries of Board and Committee Charters and relevant corporate governance policies;
- A copy of the Prospectus relating to the Company's listing on the ASX; and
- Access to the website of the Company's Share Registry, including a facility for shareholders to review and amend their particulars.

The Company encourages shareholders to utilise its website as their primary tool to access shareholder information and disclosures. In addition, the Annual Report facilitates the provision to shareholders by the Company on a yearly basis of detailed information in respect of the major achievements, financial results and strategic direction of the Group.

The Company has a practice that information to be passed by the Company at analyst briefings is first released to the ASX to ensure that the market operates on an equal basis.

Shareholders are strongly encouraged to attend and participate in general meetings of the Company, especially the Annual General Meeting. The Company will provide shareholders with details of any proposed meetings well in advance of the relevant dates.

The Group's external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. This allows shareholders an opportunity to ask questions of the auditor and reinforces the auditor's accountability to shareholders.

Principle 7: Recognise and manage risk

Primary responsibility for managing risk rests with the Management Company, while the Board, through its Audit & Risk Management Committee, retains ultimate responsibility for risk management.

In addition to requiring a recommendation from the Management Company for all investment decisions, the Group's most senior Executives are involved in major investment decisions, with all capital investments above a specified threshold requiring approval of the full Board. In addition, the Babcock & Brown Group Investment Committee reviews all investment recommendations from the Management Company.

The principal features of the Group's strategy for managing the investment of its capital are:

- Centralised decision-making on all activities involving the commitment of capital;
- Defined limits of authority for the management company to commit capital.

The Babcock & Brown Group (Babcock & Brown Limited and its controlled entities) has recently appointed a Group Risk Manager to oversee the implementation and further development of the risk management framework towards best practice. The duties of this role will include a review of the Group as part of the duties undertaken by the Management Company. The results of this review will be presented to the Audit & Risk Management Committee.

The Group did not have an internal audit function during the period to 30 June 2005. Appointment of an internal auditor will be considered by the Audit & Risk Management Committee as the Group grows and takes on further responsibilities. This is likely to coincide with the Group's first significant investment.

As outlined in Principle 4, and in accordance with Recommendation 7.2, the Chief Executive Officer and the Chief Financial Officer of the Management Company have stated to the Board in writing that internal compliance and control systems applicable to the Group's business lines and functional groups were operating efficiently and effectively in all material respects to 30 June 2005.

Principle 8: Encourage enhanced performance

The Board has established a Nomination and Governance Committee and a Remuneration Committee which both have responsibilities relating to the review and monitoring of the performance of the Board, the Chairman, the individual members of the Board and the Committees.

The Nomination and Governance Committee informs the Board of the names of Directors who are retiring in accordance with the provisions of the Constitution of the Company and makes recommendations to the Board as to whether the Board should support renomination of that

Corporate Governance Statement continued

retiring Director. In order to make such recommendations, the Committee will review the retiring Director's performance as a Board member.

The Nomination and Governance Committee also reviews the membership and performance of the various committees established by the Board and makes recommendations to the Board in that regard. A Committee member will not participate in the review of their own performance and must not be present for discussions at a Committee meeting on, or vote on, a matter regarding his or her election, re-election or removal. Given that the Company has only been listed since February 2005, the first full review of the performance of the Board and its committees and individual members will be undertaken during the 2006 financial year.

The review of the Management Company is undertaken by the Chairman and independent Directors of the Company. In reviewing the Management Company's performance, Executive Directors representing the Management Company on the Board will participate in the review but will not be present for the discussions on the Management Company's performance. A report on the Management Company's performance is also discussed with the Board. The first full review of the Management Company will occur during the 2006 financial year.

Principle 9: Remunerate fairly and responsibly

The remuneration policies of the Company have been structured to be competitive in the industry and global marketplace to ensure that the Company can attract and retain the talent needed to achieve both short and long-term success, while maintaining a strong focus on team work, individual performance and the interests of shareholders.

The policies and principles which are applied to determine the nature and amount of remuneration paid to the Directors and managers of the Group are set out in detail in the Remuneration Report. The Remuneration Report details the nature and the amount of remuneration paid to Directors.

Remuneration Committee

To assist the Board in achieving fairness and transparency in relation to remuneration issues and overseeing the remuneration and human resources policies and practices of the Group, the Board has established a Remuneration Committee. The Remuneration Committee endeavours to ensure that the Group's remuneration policies and outcomes strike an appropriate balance between the interests of the Company's shareholders and rewarding and motivating the Group's management in order to secure the long-term benefits of their energy and loyalty.

The Committee has adopted a Charter which is available on the Company's website. The responsibilities of the Committee pursuant to the Charter include:

- Making recommendations to the Board regarding the general remuneration strategy for the Company to motivate Directors and Managers while establishing a fair and transparent relationship between individual performance and remuneration;
- Reviewing the terms of remuneration of the Chairman, the Directors and other senior management of the Group, including the criteria for assessing performance;
- Reviewing and establishing the level of remuneration for Non-Executive Directors;
- Monitoring the outcomes of remuneration reviews for the Chairman and other Executive Directors; and
- Considering employee equity plans and allocation under those plans.

The Remuneration Committee met twice to 30 June 2005. The Remuneration Committee consists of three Directors with a majority of independent Non-Executive Directors. The members of the Committee are Robert Champion de Crespigny, William Wavish and Robert Topfer.

Remuneration for Non-Executive Directors

While the remuneration of the Executive Directors is determined in accordance with the principles outlined in the Remuneration Report, Non-Executive Directors are paid an annual fee for their service on the Board. Non-Executive Directors' fees are determined within a Director's aggregate fee pool limit, which is subject to approval by shareholders. The maximum aggregate sum has been set at $1 million annually. No payments are made for committee membership or the position of Chair of any of the committees.

The total remuneration paid to Non-Executive Directors to 30 June 2005 is set out in the Remuneration Report. Non-Executive Directors are not provided with retirement benefits other than statutory superannuation and do not receive options or bonus payments other than those issued to Non-Executive Directors under the Prospectus dated 24 December 2004.

Principle 10: Recognise the legitimate interests of stakeholders

The Group recognises the need to observe the highest standards of corporate practice and business conduct. In order to ensure that these standards are met, the Company has established a formal Code of Conduct.

The Code of Conduct sets out the principles for ethical behaviour by all Group personnel and is the ethical framework that provides the foundation for maintaining and enhancing the Group's reputation. The objectives of the Code include ensuring that employees, suppliers, clients, competitors and the community in general can be assured that the Group will conduct its affairs in accordance with ethical values and practices. All employees of the Group are required to comply with both the spirit as well as the letter of the relevant laws which govern the operations of the Group.

In accordance with the Code of Conduct, the Company aims to provide a work environment in which all employees can excel regardless of race, age, disability, gender, sexual preference or marital status. In this regard, the Company has various policies relating to the workplace, including those relating to occupational health and safety issues.

In accordance with the Code of Conduct and the Continuous Disclosure and Communications Policy described within Principle 5, the Company is committed to delivering to the market accurate, timely and up-to-date information so that the entire investment community operates on an informed and equal basis.

These principles of fairness, honesty and propriety are essential elements of the various policies adopted by the Company.

Compliance with Recommendations in the ASX Guidelines

Other than in those few circumstances described above and further illustrated below, the Group's corporate governance practices are in compliance with the recommendations in the ASX guidelines.

Areas of non-compliance and action being taken

Principle	Recommendation	Action
2.1	A majority of the Board should be independent Directors	The Board has two independent members of the five members. It is the intention of the Board to appoint another independent Director. In the interim, the Board has adopted a policy whereby, if requested by a Non-Executive Director, one Executive Director will abstain from voting on a resolution to be put before the Board, with the independent Chairman having the casting vote in the event of an equality of votes.
4.3	At least three independent members of the Audit Committee	The Audit & Risk Management Committee consists of the two independent Directors, with the intention for a third independent Director to be appointed to the Committee upon the appointment of that person to the Board. In the interim, the Board is considering the appointment of an independent audit professional to join the Committee.

Directors' Report

The Directors present their report on Babcock & Brown Capital Limited (the Company) and its controlled entities (the Group) for the period from 8 December 2004 to 30 June 2005.

Directors

The following were Directors of Babcock & Brown Capital Limited during the financial period 8 December 2004 to 30 June 2005 and until the date of this report:

Phillip Green
Robert Topfer

Rex Comb, Robert Champion de Crespigny AC and William Wavish were appointed Directors on 17 December 2004.

Andrew Tyndale was appointed a Director on 8 December 2004 and resigned on 17 December 2004.

Corporate Information

Babcock & Brown Capital Limited is a company limited by shares that is incorporated and domiciled in Australia.

Corporate Structure

The Company was incorporated on 8 December 2004 for the purpose of the initial public offering of the Company's shares (the ***IPO***) which was completed on 14 February 2005 when the Company was listed on the Australian Stock Exchange.

The total capital raised under the IPO was $1 billion through the issue of 200 million shares with an issue price of $5.00, paid to $2.50. These shares were allotted on 4 February 2005. The second instalment of $2.50 is payable on the first anniversary of the allotment date (4 February 2006). This date can be extended by up to six months at the Company's discretion by giving shareholders written notice at least two months before the scheduled date for payment.

Since incorporation, the Company has established a number of subsidiaries. These are set out in Note 19 of the financial statements.

Nature of Operations and Principal Activities

The Company is an investment company with focus on a concentrated portfolio with a flexible investment horizon. The Group may build positions in domestic and overseas listed and private entities with the key objective to grow their value over time.

At the date of this report no investments have been made. The Company has a broad investment mandate with the primary goal being to achieve risk-adjusted returns over the long term consistent with the Company's investment objectives.

The Group is continuing to source investments that meet our investment criteria.

Dividends

The Directors, in accordance with the dividend policy outlined in the Prospectus, do not propose a dividend for the period to 30 June 2005.

The Company will not have a definitive dividend policy until the actual profile of investments is known. Once invested, a dividend policy will be determined in light of the nature of the investments.

Review of Operations

With the Company's assets remaining uninvested, revenue was limited to interest income on the IPO proceeds. Revenue of $11.48 million was generated from cash on deposit at an average rate of 5.71%.

Operating expenses of $1.68 million were incurred for the management of the Group and sourcing investments locally and abroad. Income tax was $2.51 million.

Profit from ordinary activities after tax attributable to shareholders for the period from 8 December 2004 to 30 June 2005 was $7.29 million. This represents earnings per share of 3.6 cents for the period.

Significant Changes in the State of Affairs

From 8 December 2004 to 30 June 2005, the following significant changes occurred:

- The Company raised $1 billion through the IPO, which is paid to $500 million. Share issue costs of the raising totalled $23.15 million.
- The capital raising resulted in the issue of 200,000,000 partly paid ordinary shares, paid to $2.50. On completion of the second call due on 4 February 2006, the shares will have a full subscription price of $5.00.
- The Company listed on the Australian Stock Exchange on 14 February 2005, as a listed investment company.
- All Directors were appointed during the period.

Directors' Report continued

Subsequent to Reporting Date

The Directors are not aware of any matter or circumstance that has occurred since 30 June 2005 that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Future Developments

In the opinion of the Directors, disclosure of other information regarding likely developments in the operations of the Group and the expected results of those operations would prejudice the interests of the Company. Accordingly, this information has not been included in this report.

Information on Directors

The following details of the Directors are provided in the Corporate Governance Statement – refer page 6 of the Annual Report:

- Each Director's qualification, experience and special responsibilities; and
- The relevant share interests of each Director in the Company.

Directors' Meetings

The number of meetings of the Board and Committees held from 8 December 2004 to 30 June 2005 and the number of meetings attended by each Director are:

Meetings of Committees

	Directors' Meetings	Audit & Risk	Remuneration	Nomination & Governance
Number of meetings held	7	1	2	1
Number of meetings attended:				
Rex Comb	5	**	**	1
Robert Champion de Crespigny AC	6	1	2	1
Phillip Green	6	**	**	1
Robert Topfer	7	**	1	1
William Wavish	6	1	2	1
Andrew Tyndale (resigned 17 December 2004)	1	**	**	**

** Not a member of that committee

Company Secretaries

The names and details of the Company's Secretaries in office during the financial period from 8 December 2004 to 30 June 2005 and up until the date of this report are as follows:

Sarah Zanon (Company Secretary)

Appointed 8 December 2004

Sarah Zanon joined Babcock & Brown in 2000 and is a senior lawyer in the Australian Legal and Compliance Group. Before joining Babcock & Brown, Sarah worked in senior legal and compliance roles within the finance and funds management industries, including Equitilink, Perpetual Trustees and Price Waterhouse. She holds a Bachelor of Commerce (accounting) and Bachelor of Laws degrees from the University of New South Wales, as well as a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia. She is a member of the Law Society of NSW.

Paul Ferguson (Company Secretary)

Appointed 8 December 2004

Paul Ferguson joined Babcock & Brown in 2001 and is the head of the Australian Legal and Compliance Group. Before joining Babcock & Brown, Paul was the National Corporate Trust Manager for the trustee division of the National Australia Bank and a Senior Associate in the Sydney law firm Moray & Agnew. Paul holds Bachelors of Law and Science degrees from the University of Sydney and is a member of the Law Society of New South Wales and is an affiliate of Chartered Secretaries Australia.

Indemnification and Insurance of Officers

On a full indemnity basis and to the full extent permitted by law, the Company indemnifies each person (an Indemnitee) who is or has been a Director or Company Secretary of the Company or any of its subsidiaries, and each Director who acts or has acted as a representative of the Company serving as an officer of another entity at the request of the Company. An Indemnitee is indemnified against any liability (other than legal costs) incurred in the discharge of their duties as an officer of the Company or such other entity except where the liability is a liability owed to the Company or a related body corporate or the liability arises out of conduct involving a lack of good faith on the part of the Indemnitee or conduct attracting the civil penalty provisions of the Corporations Act.

Indemnitees are also indemnified by the Company for costs (including legal costs) and expenses incurred in defending an action for a liability incurred in acting as an officer of the Company or any of its subsidiaries or such other entities. In addition, the Company may indemnify any other officer or former officer of the Company against those liabilities and costs on the same basis.

The Company has agreed to pay a premium for a policy of insurance designed to insure the Company's Directors and officers and those of its subsidiaries.

Environmental Regulation and Performance

The operations of the Group are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known breaches of any environmental requirements applicable to the Group.

Auditor Independence

The Company's auditor, PricewaterhouseCoopers, has provided a written declaration under section 307C of the *Corporations Act 2001* that to the best of its knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- The applicable Australian code of professional conduct in relation to the audit.

No Directors or officers of the Company have been partners of PricewaterhouseCoopers at a time when the firm was the auditor of the Company, or in the three years before they became Directors.

This declaration is set out on page 21 and forms part of the Directors' Report for the period ended 30 June 2005.

Non-Audit Services

To 30 June 2005, the Company had in place a policy to maintain perceived as well as actual independence of the auditor. In accordance with this policy, PricewaterhouseCoopers was not appointed to conduct non-audit services during the period to 30 June 2005. Furthermore, future non-audit services will be sought from other service providers in preference to PricewaterhouseCoopers unless there is a compelling reason to engage PricewaterhouseCoopers on a particular assignment. In the situation where

Directors' Report continued

PricewaterhouseCoopers remains the preferred adviser, the Audit and Risk Management Committee will be required to approve the engagement.

Rounding of Amounts

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission relating to the "rounding-off" of amounts in the Directors' Report and Financial Report. In accordance with the Class Order, reported amounts have been rounded to the nearest $1,000, unless otherwise indicated.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support, and have adhered to, the principles of corporate governance set out in the Company's Corporate Governance Statement.

Resolution of Directors

This report is made out in accordance with a resolution of the Directors.

Robert Champion de Crespigny AC
Chairman

Rex Comb
Chief Executive Officer of the Management Company

Sydney, 29 August 2005

PRICEWATERHOUSECOOPERS

Auditor's Independence Declaration

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Website:www.pwc.com/au
Telephone +61 3 8603 1000
Facsimile +61 3 8603 1999

As lead auditor for the audit of Babcock & Brown Capital Limited for the period ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Babcock & Brown Capital Limited and the entities it controlled during the period.

Russell Sutton
Partner
PricewaterhouseCoopers

Melbourne
29 August 2005

Remuneration Report

The Company's remuneration policies are limited to those applicable to the Directors. There were no specified executives or other officers, other than Directors, employed by Babcock & Brown Capital Limited or its controlled entities at any time during the period.

The persons holding the title of officers of Babcock & Brown Capital Limited are employed by entities controlled by Babcock & Brown Limited and provide services to the Company under the Management Agreement between the Company and the Management Company. The Management Company is remunerated through management fees to be charged to the Company for management services provided in accordance with the Management Agreement. For details of the management fees charged by the Management Company refer note 19 "*Related Parties*" of the financial statements.

Principles used to determine the nature and amount of remuneration

The objective of the Company's remuneration framework is to ensure reward for performance is competitive and appropriate for results delivered. The Company's remuneration policies are designed to reward Group and individual performance and to attract and retain the talent needed to achieve both short- and long-term success, while at the same time having regard to shareholder interests and market circumstances.

The Company's total remuneration is divided into two areas:

- Remuneration of Non-Executive Directors; and
- Remuneration of Executive Directors.

Each of these categories of remuneration is discussed below:

Remuneration of Non-Executive Directors

Remuneration of Non-Executive Directors reflects the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' remuneration is reviewed annually by the Board. The Chairman's remuneration is determined separately from the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his remuneration.

The base remuneration for Non-Executive Directors was set in December 2004 at the Company's inception. The first formal review will occur during the 2006 financial year. Non-Executive Directors' remuneration is determined within a Director's aggregate fee pool limit, which is subject to approval by shareholders. The maximum currently stands at $1,000,000 annually. No payments are made for committee membership.

Equity based compensation for Non-Executive Directors

Options were granted to the Non-Executive Directors as part of the IPO. The Option Plan which sets out the terms of the offer, is designed to provide a long-term incentive to Non-Executive Directors. The terms and conditions of the offer are as follows:

Grant Date	Expiry Date	Exercise Price ($)	Value per Option Granted ($)	Date Exercisable
4 February 2005	4 February 2012	5.00	0.62 to 1.43*	Any time after the Company's third year result, subject to the vesting conditions of the options

* Each of the three tranches were fair valued. Refer below under "Valuation of the Options"

Options under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share and carries identical dividend and voting rights as other ordinary shares. No options were vested or exercisable during the period ended 30 June 2005.

Remuneration Report continued

Vesting conditions of the options:
The options issued to Non-Executive Directors were granted for nil consideration and vest as follows:

- *Tranche 1*: 500,000 options with no hurdle; plus
- *Tranche 2*: 866,667 options if the Total Shareholder Return (TSR) since listing is an internal rate of return (IRR) of 10% or greater; plus
- *Tranche 3*: 1,133,333 options if the TSR since listing is an IRR of 25% or greater.

In addition to the options issued to Non-Executive Directors during the period, there are another 1,000,000 options (433,333 tranche 2 options and 566,667 tranche 3 options) to be issued to the third Non-Executive Director when he or she is appointed to the Board.

Each tranche is conditional on the Non-Executive Director being employed by the Company on the date of exercise. Failure to maintain employment as a Non-Executive Director of the Company will result in the immediate lapse of any unvested options and the lapse after 90 days of his or her termination date of any vested but unexercised options.

The vesting conditions are linked to TSR to ensure Non-Executive Directors are only rewarded when shareholder returns are commensurate. TSR is defined as the measure of shareholder return on investment in BBCL shares for each measurement period, calculated in accordance with the formula set out in the Management Agreement (refer Note 19 of the financial statements).

Valuation of the Options

Options	Number	Value per Option	Total Value
Tranche 1	500,000	$1.43	$715,000
Tranche 2	866,667	$1.32	$1,144,000
Tranche 3	1,133,333	$0.62	$702,667
Total	**2,500,000**		**$2,561,667**

In order to assess the economic benefits of the options, the 'Binomial Model' technique was used for the valuation. This methodology produces a share price distribution and can be used to value share-based payments with market hurdles and makes allowance for early exercise. The share price distribution is generated assuming at any point in time the share price can move up or down.

Remuneration of the Executive Directors

All Executive Directors and Company Secretaries are employed by the Babcock & Brown Group and their remuneration under such contracts is not specifically tied to the performance of the Company or their role within the Company. The terms of employment with Rex Comb are set out below:

Rex Comb, Chief Executive Officer of the Management Company:

- Term of agreement – no fixed term. Commencing 1 February 2005.
- Base salary, inclusive of superannuation of $650,000 per annum, to be reviewed annually by the Remuneration Committee. Sum of salary and superannuation will equal initial Total Employment Cost (TEC)

- Bonus – Short Term Incentive (STI)
  – During the first year of employment a guaranteed STI entitlement of $350,000 payable 12 months after commencement of employment plus a discretionary bonus of $300,000 determined by Babcock & Brown at its absolute discretion payable (if any) 12 months after commencement of employment.
  – After first year of employment the target STI will be 100% of TEC, which will be discretionary or based on agreed key performance indicators.
- Bonus – Long Term Incentive (LTI)
  – Entitlement to a minimum of 4% of any performance fees paid to the Management Company by Babcock & Brown Capital.
- Termination period – 3 months notice by the employee, 12 months notice by the Company.
- Payment of a termination benefit - on termination by the Company, other than for gross misconduct, equal to one times base salary, plus pro-rata entitlement to any STI and in addition after one year's employment pro-rata entitlement to any LTI.

Details of Remuneration – Directors' Remuneration

Details of the nature and amount of each element of each of the five Directors of the Company from 8 December 2004 to 30 June 2005 are set out in the table below:

8 December 2004 to 30 June 2005				Post Employment	Equity	Total	Percentage of
Name of Specified Director	Primary Salary and Fees ($)	Bonus ($)[2]	Non-Monetary Benefits ($)	Super-annuation ($)	Options[3] ($)		remuneration consisting of options (%)
Non-Executive Directors[5]:							
Robert Champion de Crespigny AC (Chairman)	75,000	–	–	6,750	257,040	338,790	75.9
William Wavish	50,000	–	–	4,500	144,863	199,363	72.7
Executive Directors:							
Phillip Green[1]	194,565	–	–	6,548	147,926	349,039	42.4
Robert Topfer[1]	194,565	–	–	6,548	36,982	238,095	15.5
Rex Comb[1,6]	219,203	145,833	634	41,667	–	407,337	–
Andrew Tyndale[4]	–	–	–	–	–	–	–
Total	**733,333**	**145,833**	**634**	**66,013**	**586,811**	**1,532,624**	

1 Remuneration paid to Executive Directors Phillip Green, Robert Topfer and Rex Comb is 100% of the remuneration paid to them by the Babcock & Brown Group. Apart from Rex Comb, this remuneration is paid to Executive Directors in respect of their wider responsibilities relating to the Babcock & Brown Group, of which executive directorship is a part. It is not practical to apportion the remuneration to the time spent directly on the executive directorship of the Company.

2 Executive Directors Phillip Green and Robert Topfer are paid bonuses by Babcock & Brown Limited. No bonus is payable by the Company to these Directors. Babcock & Brown Limited paid Phillip Green and Robert Topfer bonuses for the year ended 31 December 2004. None of this bonus has been presented above for the 24 days that they were also Executive Directors of the Company on the basis that no amount of this bonus was earned in that 24-day period.

3 Equity options have been valued using a Binomial pricing model. Option values for Non-Executive Directors Robert Champion de Crespigny and William Wavish represent options granted in Babcock & Brown Capital Limited for 2005. Option values for Executive Directors Phillip Green and Robert Topfer represent options granted in Babcock & Brown Limited for 2004. Babcock & Brown Limited options for 2004 were valued using a Bermudan option pricing model.

4 Andrew Tyndale was appointed a Director on 8 December 2004 and resigned 17 December 2004.

5 The Non-Executive Directors commenced employment on 17 December 2004.

6 Notwithstanding his appointment as a Director of the Company on 17 December 2004, Rex Comb commenced employment 1 February 2005. This commencement date succeeds his appointment date as a Director from 17 December 2004.

Remuneration Report continued

Name of Specified Director	Percentage of Remuneration not related to Performance (%)	Percentage of Remuneration related to Performance (%)
Robert Champion de Crespigny AC	57.2	42.8*
William Wavish	27.3	72.7
Phillip Green	57.6	42.4**
Robert Topfer	84.5	15.5**
Rex Comb	100	Nil

* Excludes tranche 1 of the options which have no performance hurdle, but includes tranches 2 and 3.
** These figures represent the percentage of remuneration from Babcock & Brown Limited options, as discussed above.

Details of Remuneration – Remuneration options

Director	Number Granted	Grant Date	Value per Option ($)	Exercise Price per share ($)	First Exercise Date[1]	Last Exercise Date
Robert Champion de Crespigny AC	1,500,000	4/2/05	0.62 – 1.43	5.00	29/8/07	4/2/12
William Wavish	1,000,000	4/2/05	0.62 – 1.32	5.00	29/8/07	4/2/12
Total	**2,500,000**					

1 The first exercisable date for the options is the date immediately after the results for the year ending 30 June 2007. This date is assumed to be 29 August 2007.

Shareholdings of Directors
Directors' shareholdings, including personally related entities, at balance date were as follows:

Name of Specified Director	Shares Held in the Company*	Options Held in the Company**
Robert Champion de Crespigny AC	4,000,000	1,500,000
William Wavish	–	1,000,000
Phillip Green	1,600,001	–
Robert Topfer	400,001	–
Rex Comb	–	–

* Other than the two founding shares all other shares were acquired under the IPO. There have been no other movement in Directors' shareholdings.
** All options were issued under the Option Plan. There were no other movements in Directors' options.

Financial Statements

Statement of Financial Performance

for the Period 8 December 2004 to 30 June 2005

	Note	Consolidated 2005 $'000	Parent Entity 2005 $'000
Revenues from ordinary activities	2	11,480	11,480
Operating expenses from ordinary activities	3	(1,681)	(1,681)
Profit from ordinary activities before income tax expense		**9,799**	**9,799**
Income tax expense relating to ordinary activities	4	(2,510)	(2,510)
Net profit attributable to members of Babcock & Brown Capital Limited		**7,289**	**7,289**
Share issue costs	12	(23,146)	(23,146)
Total expenses attributable to members of Babcock & Brown Capital Limited and recognised directly in equity		**(23,146)**	**(23,146)**
Total changes in equity attributable to members of Babcock & Brown Capital Limited other than those resulting from transactions with owners as owners		**(15,857)**	**(15,857)**
Earnings per share for profit attributable to the members of Babcock & Brown Capital Limited			
Basic earnings per share	14	3.6 cents	
Diluted earnings per share	14	3.6 cents	

The above Consolidated Statement of Financial Performance should be read in conjunction with the accompanying notes

Statement of Financial Position

as at 30 June 2005

	Note	Consolidated 2005 $'000	Parent Entity 2005 $'000
Current Assets			
Cash assets	5	501,427	341,427
Receivables	6	502,393	502,393
Total Current Assets		**1,003,820**	**843,820**
Non-Current Assets			
Other financial assets	7	–	160,000
Total Non-Current Assets		**–**	**160,000**
Total Assets		**1,003,820**	**1,003,820**
Current Liabilities			
Payables	8	1,187	1,187
Current tax liabilities	9	2,488	2,488
Provisions	10	15,980	15,980
Total Curent Liabilities		**19,655**	**19,655**
Non-Current Liabilities			
Deferred tax liabilities	11	22	22
Total Non-Current Liabilities		**22**	**22**
Total Liabilities		**19,677**	**19,677**
Net Assets		**984,143**	**984,143**
Equity			
Contributed equity	12	976,854	976,854
Retained profits	13	7,289	7,289
Total Equity		**984,143**	**984,143**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes

Statement of Cash Flows

8 December 2004 to 30 June 2005

	Note	Consolidated 2005 $'000	Parent Entity 2005 $'000
Cash Flows from Operating Activities			
Interest received		9,469	9,469
Payments to suppliers		(437)	(437)
Manager's administration costs		(439)	(439)
Net Cash Flows from Operating Activities	15	**8,593**	**8,593**
Cash Flows from Investing Activities			
Payments for investments in subsidiaries		–	(160,000)
Net Cash Flows (used in) Investing Activities		**–**	**(160,000)**
Cash Flows from Financing Activities			
Proceeds from issue of ordinary shares		500,000	500,000
Share issue costs		(7,166)	(7,166)
Net Cash Flows from Financing Activities		**492,834**	**492,834**
Net increase in cash held		501,427	341,427
Cash at Beginning of Financial Period		–	–
Cash at the End of Financial Period	5	**501,427**	**341,427**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

Notes to the Financial Statements

for the Period Ended 30 June 2005

1 Statement of Significant Accounting Policies

(a) Company Structure

The Babcock & Brown Capital Group (the Group) consists of Babcock & Brown Capital Limited (the Company) and its subsidiaries. The Company was formed on 8 December 2004 and had no transactions before listing on the ASX on 14 February 2005. The financial period for this financial report is from 8 December 2004 (date of incorporation) to 30 June 2005.

(b) Basis of Preparation

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the *Corporations Act 2001*.

It is prepared in accordance with the historical cost convention, except as otherwise stated.

(c) Principles of Consolidation

The consolidated financial statements are those of the Group, comprising Babcock & Brown Capital Limited (the parent company) and all entities that Babcock & Brown Capital Limited controlled during the period and at the reporting date.

Where an entity became controlled during the financial period, the results are included only from the date control commenced or up to the date control ceased.

All intercompany balances and transactions have been eliminated in full.

(d) Revenue Recognition

Amounts disclosed as revenue are net of sales discounts, duties and taxes. Revenue is recognised as follows:

Interest income

Interest income is brought to account on an accruals basis with reference to the effective interest rate applicable on the asset.

Dividend income

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

(e) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and highly liquid investments with original maturities of three months or less. These assets are stated at nominal values.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and money market and term deposit investments, readily convertible to cash, net of outstanding bank overdrafts.

(f) Receivables

All trade receivables are stated at the amounts receivable as they are due for settlement.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

Loans receivable and receivables from related parties are recognised at the nominal amount due. Interest is taken up as income on an accrual basis.

Notes to the Financial Statements continued

for the Period Ended 30 June 2005

1 Statement of Significant Accounting Policies continued

(g) Investments

The Group may make a range of investments in entities, consistent with its investment objectives, which may result in it obtaining varying degrees of influence over those entities.

Where the investment effectively provides the Group with control over that entity, the Group will consolidate that investment from the date it acquires control. All balances and transactions, including unrealised profits arising from intra-group transactions will be eliminated in full and investments in controlled entities will be carried at the lower of cost and recoverable amount.

Where the investment provides the Group with significant influence over that entity, the Group will equity account for that investment from the date it acquires significant influence. Investments in associates will be accounted for under the equity accounting method and the investment will be carried at the lower of cost and recoverable amount.

Where neither control nor significant influence exists, the Group will carry the investments as follows:

Listed investments
Listed investments and other marketable shares are carried at net market value. Changes in net market value are recognised as a revenue or expense in the Statement of Financial Performance during the period in which the net market value changed.

Unlisted Investments
Investments in unlisted shares are carried at the lower of cost and net realisable value.

(h) Trade and Other Creditors
These amounts represent liabilities for goods and services provided to the Group before the financial period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(i) Provisions
Provisions are recognised when a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities arise as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

(j) Dividends
Provision is made for the amount of any dividend declared, determined or publicly recommended by the Directors on or before the end of the financial period but not distributed at balance date.

(k) Income Tax
Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or future tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

1 Statement of Significant Accounting Policies continued

(l) Earnings Per Share (EPS)

Basic EPS is determined by dividing the net profit after income tax attributable to members of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for any bonus elements in ordinary shares issued during the period.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares issued in relation to dilutive potential ordinary shares.

(m) Rounding of Amounts

The Company is a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the rounding off of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest $1,000, or in certain cases to the nearest dollar.

(n) Recoverable Amount of Non-Current Assets Valued at Cost

The recoverable amount of all non-current assets carried at cost is assessed at reporting date. The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal. These cash flows have not been discounted to present value.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Any provisions for recoverable amount write-downs are included in the Statement of Financial Performance in the period in which the recoverable amount write-down occurs.

(o) Project and Deal Costs

Project and deal costs (direct and external only) are capitalised and deferred only to the extent that it is highly probable that a contract will be entered into which will result in the recognition of an asset.

Project and deal costs are assessed for recoverability at the end of each reporting period to determine the amount, if any, which should be expensed to the Statement of Financial Performance.

(p) Foreign Currency Translation

Foreign currency transactions are initially translated into Australian currency at the rate of exchange prevailing at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial period.

The financial reports of overseas operations are translated using the current rate method and any exchange differences are taken directly to the foreign currency translation reserve.

(q) Contributed Equity

Contributed equity includes all issued capital, which includes the fair value of the issued capital including partly paid shares plus uncalled amounts on the partly paid shares.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Notes to the Financial Statements continued

for the Period Ended 30 June 2005

	Consolidated 2005 $'000	Parent Entity 2005 $'000
2 Revenue from Ordinary Activities		
Interest revenue – cash and deposits	11,480	11,480

The weighted average interest rate on cash and deposits for the period was 5.71%.

	Consolidated 2005 $'000	Parent Entity 2005 $'000
3 Profit from Ordinary Activities		
Profit from ordinary activities before related income tax includes the following specific items of expense		
Expenses		
Management Company's administration expenses (refer Note 19)	439	439
Auditor's remuneration (refer Note 20)	117	117
Directors' fees (refer Note 18)	136	136
Project and deal costs	749	749
Other	240	240
Total operating expenses from ordinary activities	**1,681**	**1,681**
4 Income Tax		
The income tax expense provided for the financial period differs from the amount calculated on the profit		
Income tax expense is reconciled as follows:		
Profit from ordinary activities before income tax expense	9,799	9,799
Income tax calculated at 30%	2,940	2,940
Tax effect of permanent differences:		
Share issue costs	(430)	(430)
Income tax expense attributable to ordinary activities	**2,510**	**2,510**
Income tax expense comprises:		
Current taxation provision (Note 9)	2,488	2,488
Deferred income tax liability (Note 11)	22	22
Total income tax	**2,510**	**2,510**

	Consolidated 2005 $'000	Parent Entity 2005 $'000
5 Cash Assets (Current)		
Cash at bank	196,787	36,787
Cash deposits	304,640	304,640
Total cash assets	**501,427**	**341,427**

Cash at bank and on deposit are bearing interest rates between 5.50% and 5.81%. Cash is invested in financial institutions with a short-term rating of A-1+ and A-1.

	Consolidated 2005 $'000	Parent Entity 2005 $'000
6 Receivables (Current)		
Interest receivable	2,011	2,011
Related entity receivable from Babcock & Brown Australia Pty Ltd	197	197
Prepayments	73	73
Receivable from shareholders (Note 12c)	500,000	500,000
Other	112	112
Total current receivables	**502,393**	**502,393**
7 Other Financial Assets (Non-Current)		
Shares in controlled entities – at cost (Note 19)	–	160,000
8 Payables (Current)		
Trade payables	429	429
Other payables (including project and deal costs)	758	758
	1,187	**1,187**
9 Tax Liabilities (Current)		
Provision for income tax	2,488	2,488
10 Provisions (Current)		
Underwriting fees payable and other share issue costs	15,980	15,980

Underwriting fee

Provision is made for the underwriting fee payable to the underwriter of the IPO completed in February 2005. Of this fee, $3.3 million is payable on completion of the second instalment due on 4 February 2006. The balance is payable dependent on the level of investment of the Company's assets.

These provisions are raised in conjunction with the receivable from shareholders of $500 million.

Notes to the Financial Statements continued

for the Period Ended 30 June 2005

	Consolidated 2005 $'000	Parent Entity 2005 $'000
11 Deferred Tax Liabilities (Non-Current)		
Provision for deferred income tax	22	22

	Parent Entity 2005 Number of Shares	Parent Entity 2005 $'000
12 Contributed Equity		
(a) Issued and Paid up Capital		
Partly Paid Ordinary Shares issued under the Offer	200,000,000	1,000,000
200,000,000 Partly Paid Ordinary Shares – subscription price of $5.00 partly paid to $2.50		
(b) Movements in ordinary share capital:		
Beginning of the financial period	2	–
Issued during the period:		
Public equity raising	199,999,998	1,000,000
Share issue costs		(23,146)
Closing balance	**200,000,000**	**976,854**

(c) Ordinary Shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon poll each share is entitled to one vote.

As at 30 June 2005 there were 200,000,000 ordinary shares partly paid to $2.50, on which another $2.50 was outstanding. The outstanding amount is due and receivable on 4 February 2006. This instalment can be extended for up to six months by the Company's Directors.

The 200,000,000 ordinary shares were allotted on 4 February 2005.

(d) Share Options
Information relating to the Babcock & Brown Capital Limited options for Non-Executive Directors is set out in Note 18.

	Consolidated 2005 $'000	Parent 2005 $'000
13 Retained Profits		
Retained profits at beginning of period	–	–
Net profit attributable to members of Babcock & Brown Capital Limited	7,289	7,289
Retained profits at period end	**7,289**	**7,289**

14 Asset Backing and Earnings Per Share

	Consolidated 2005	Parent 2005
Net tangible asset backing per share – after tax[1]	$4.92	
Basic earnings per share	3.6 cents	
Diluted earnings per share	3.6 cents	
Earnings used in calculation of earnings per share[2]	$7,288,921	
Weighted average number of shares on issue	200,000,000	

1 The net tangible asset backing per share net of the $500 million call from shareholders and related provision for underwriting costs is $2.50.

2 The weighted average number of shares for the period 8 December 2004 to 30 June 2005 is 143,414,634 given that there were only two shares on issue before the IPO. Therefore, basic and diluted earnings per share have been disclosed on the face of the Statement of Financial Performance for the period from the IPO to 30 June 2005. The basic and diluted earnings per share from 8 December 2004 to 30 June 2005 would be 5.1c.

15 Cash Flow Information

Reconciliation of net profit from ordinary activities after income tax to net cash inflow from operating activities

	Consolidated 2005 $'000	Parent 2005 $'000
Cash Provided by Operating Activities		
Profit from ordinary activities after tax	7,289	7,289
Changes in assets and liabilities:		
(Increase) in prepayments	(73)	(73)
(Increase) in trade and other receivables	(2,320)	(2,320)
Increase in trade and other creditors	1,187	1,187
Increase in tax payable	2,488	2,488
Increase in provision for deferred income tax	22	22
Net cash flow from operating activities	**8,593**	**8,593**

Notes to the Financial Statements continued

for the Period Ended 30 June 2005

16 Segment Reporting

Until the Company's assets are invested it does not operate in any particular industry. The Company's operations during the period were predominantly in one geographical location, being Australia. European subsidiaries were established during the period, however, there were no operations in these entities during the period.

17 Financial Instruments

(a) Interest Rate Risk

The Group receives interest on its cash at an average rate of 5.65% at period end and all receivables and payables are on interest free terms.

The Group's exposure to interest rate risks and effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date are as follows:

Financial Instruments	Note	Floating Interest Rate 2005 AUD$'000	Fixed Interest Maturing in 1 Year or Less 2005 AUD$'000	Non-Interest Bearing 2005 AUD$'000	Total 2005 AUD$'000
(i) Financial Assets					
Cash	5	196,787	304,640	–	501,427
Interest receivable	6	–	–	2,011	2,011
Trade receivables	6	–	–	382	382
Receivable from shareholders	6	–	–	500,000	500,000
Total financial assets		**196,787**	**304,640**	**502,393**	**1,003,820**
Weighted average interest rate		5.50%	5.74%	–	
(ii) Financial Liabilities					
Trade and other creditors	8	–	–	1,187	1,187
Total financial liabilities		**–**	**–**	**1,187**	**1,187**
Weighted average interest rate		–	–	–	
Net financial assets		**196,787**	**304,640**	**501,206**	**1,002,633**

(b) Net Fair Values

All financial assets and liabilities have been recognised at balance date at their carrying values which does not materially differ from the fair value.

(c) Credit Risk

The Group's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial performance.

17 Financial Instruments continued

(d) Liquidity and Cash Flow Risk

Liquidity risk is the risk that the Group will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial assets. Cash flow risk is the risk that future cash flows derived from holding financial assets will fluctuate. Given the quantum of investment in cash and cash equivalents, exposure to liquidity and cash flow risk is therefore minimal.

(e) Foreign Exchange Risk

The Group's exposure at period end to foreign exchange risk is limited to its investments in foreign subsidiaries. Investments in these foreign subsidiaries are minimal as at 30 June 2005.

18 Director and Executive Disclosures

(a) Directors

The following persons were Directors of Babcock & Brown Capital Limited during the financial period:

Chairman – Non-Executive
Robert Champion de Crespigny AC (Appointed 17 December 2004)

Non-Executive Directors
William Wavish (Appointed 17 December 2004)

Executive Directors
Rex Comb (Appointed 17 December 2004)
Phillip Green (Appointed 8 December 2004)
Robert Topfer (Appointed 8 December 2004)
Andrew Tyndale (Appointed 8 December 2004. Resigned 17 December 2004)

Executives
There were no specified executives or officers employed by Babcock & Brown Capital Limited or its controlled entities at any time during the period.

(b) Remuneration of Directors

Principles used to determine the nature and amount of Remuneration
The objective of the Company's framework is to ensure reward for performance is competitive and appropriate for results delivered. The Company's remuneration policies are designed to reward Group and individual performance and to attract and retain talent needed to achieve both short-and long-term success, while at the same time having regard to shareholder interests and market circumstances.

The Company's total remuneration is divided into two areas:

- Remuneration of Non-Executive Directors; and
- Remuneration of Executive Directors.

Each of these categories of remuneration is discussed below:

Remuneration of Non-Executive Directors
Remuneration of Non-Executive Directors reflects the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' remuneration is reviewed annually by the Board.

Notes to the Financial Statements continued

for the Period Ended 30 June 2005

18 Director and Executive Disclosures continued

The Chairman's remuneration is determined separately from the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his remuneration.

The base remuneration for Non-Executive Directors was set in December 2004 at the Company's inception. The first formal review will occur during the 2006 financial year. Non-Executive Directors' remuneration is determined within a Director's aggregate fee pool limit, which is subject to approval by shareholders. The maximum currently stands at $1,000,000 annually. No payments are made for committee membership.

Equity-based compensation for Non-Executive Directors
Options were granted to the Non-Executive Directors as part of the IPO. The Option Plan which sets out the terms of the offer, is designed to provide a long-term incentive to Non-Executive Directors. The terms and conditions of the offer are as follows:

Grant Date	Expiry Date	Exercise Price ($)	Value Per Option Granted ($)	Date Exercisable
4 February 2005	4 February 2012	5.00	0.62-1.43*	Any time after the Company's third year result, subject to the vesting conditions of the options

* Each of the three tranches were fair valued. Refer below under "Valuation of the Options"

Options under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share and carries identical dividend and voting rights as other ordinary shares. No options were vested or exercisable during the period ended 30 June 2005.

Vesting conditions of the options
The options issued to Non-Executive Directors were granted for nil consideration and vest as follows:

- Tranche 1: 500,000 options with no hurdle; plus
- Tranche 2: 866,667 options if the Total Shareholder Return (TSR) since listing is an internal rate of return (IRR) of 10% or greater; plus
- Tranche 3: 1,133,333 options if the TSR since listing is an IRR of 25% or greater.

In addition to the options issued to Non-Executive Directors during the period, there are another 1,000,000 options (433,333 tranche 2 options and 566,667 tranche 3 options) to be issued to the third Non-Executive Director when he or she is appointed to the Board.

Each tranche is conditional on the Non-Executive Director being employed by the Company on the date of exercise. Failure to maintain employment as a Non-Executive Director of the Company will result in the immediate lapse of any unvested options and the lapse after 90 days of his or her termination date of any vested but unexercised options.

18 Director and Executive Disclosures continued

The vesting conditions are linked to TSR to ensure Non-Executive Directors are only rewarded when shareholder returns are commensurate. TSR is defined as the measure of shareholder return on investment in BBCL shares for each measurement period, calculated in accordance with the formula set out in the Management Agreement (refer note 19).

Valuation of the Options

Options	Number	Value per Option	Total Value
Tranche 1	500,000	$1.43	$715,000
Tranche 2	866,667	$1.32	$1,144,000
Tranche 3	1,133,333	$0.62	$702,667
Total	**2,500,000**		**$2,561,667**

In order to assess the economic benefits of the options, the "Binomial Model" technique was used for the valuation. This methodology produces a share price distribution and can be used to value share-based payments with market hurdles and makes allowance for early exercise. The share price distribution is generated assuming at any point in time the share price can either move up or move down.

Remuneration of the Executive Directors

All Executive Directors and Company Secretaries are employed by the Babcock & Brown Group and their remuneration under such contracts is not specifically tied to the performance of the Company or their role within the Company. The terms of employment with Rex Comb are set out below:

Rex Comb, Chief Executive Officer of the Management Company:

- Term of agreement – no fixed term. Commencing 1 February 2005.
- Base salary, inclusive of superannuation of $650,000 per annum, to be reviewed annually by the Remuneration Committee. Sum of salary and superannuation will equal Total Employment Cost (TEC)
- Bonus – Short Term Incentive (STI)
  – During the first year of employment a guaranteed STI entitlement of $350,000 payable 12 months after commencement of employment plus a discretionary bonus of $300,000 determined by Babcock & Brown at its absolute discretion payable (if any) 12 months after commencement of employment.
  – After first year of employment the target STI will be 100% of TEC, which will be discretionary or based on agreed key performance indicators.
- Bonus – Long Term Incentive (LTI) - Entitlement to a minimum of 4% of any performance fees paid to the Management Company by Babcock & Brown Capital.
- Termination period – 3 months notice by the employee, 12 months notice by the Company.
- Payment of a termination benefit - on termination by the Company, other than for gross misconduct, equal to one times base salary, plus pro-rata entitlement to any STI and in addition after one year's employment pro-rata entitlement to any LTI.

Notes to the Financial Statements continued

for the Period Ended 30 June 2005

18 Director and Executive Disclosures continued

Details of Remuneration – Directors' Remuneration

Details of the nature and amount of each element of each of the five Directors of the Company from 8 December 2004 to 30 June 2005 are set out in the table below:

8 December 2004 to 30 June 2005	Primary			Post Employment	Equity	Total
Name of Specified Director	Salary and Fees ($)	Bonus ($)[2]	Non-Monetary Benefits ($)	Super-annuation ($)	Options[3] ($)	
Non-Executive Directors[5]:						
Robert Champion de Crespigny AC (Chairman)	75,000	–	–	6,750	257,040	338,790
William Wavish	50,000	–	–	4,500	144,863	199,363
Executive Directors:						
Phillip Green[1]	194,565	–	–	6,548	147,926	349,039
Robert Topfer[1]	194,565	–	–	6,548	36,982	238,095
Rex Comb[1,6]	219,203	145,833	634	41,667	–	407,337
Andrew Tyndale[4]	–	–	–	–	–	–
Total	**733,333**	**145,833**	**634**	**66,013**	**586,811**	**1,532,624**

1 Remuneration paid to Executive Directors Phillip Green, Robert Topfer and Rex Comb is 100% of the remuneration paid to them by the Babcock & Brown Group. Apart from Rex Comb, this remuneration is paid to Executive Directors in respect of their wider responsibilities relating to the Babcock & Brown Group, of which executive directorship is a part. It is not practical to apportion the remuneration to the time spent directly on the executive directorship of the Company.

2 Executive Directors Phillip Green and Robert Topfer are paid bonuses by Babcock & Brown Limited. No bonus is payable by the Company to these Directors. Babcock & Brown Limited paid Phillip Green and Robert Topfer bonuses for the year ended 31 December 2004. None of this bonus has been presented above for the 24 days that they were also Executive Directors of the Company on the basis that no amount of this bonus was earned in that 24-day period.

3 Equity options have been valued using a Binomial pricing model. Option values for Non-Executive Directors Robert Champion de Crespigny and William Wavish represent options granted in Babcock & Brown Capital Limited for 2005. Option values for Executive Directors Phillip Green and Robert Topfer represent options granted in Babcock & Brown Limited for 2004. Babcock & Brown Limited options for 2004 were valued using a Bermudan option pricing model.

4 Andrew Tyndale was appointed a Director on 8 December 2004 and resigned 17 December 2004.

5 The Non-Executive Directors commenced employment on 17 December 2004.

6 Notwithstanding his appointment as a Director of the Company on 17 December 2004, Rex Comb commenced employment 1 February 2005. This commencement date succeeds his appointment date as a Director from 17 December 2004.

18 Director and Executive Disclosures continued

Details of Remuneration – Directors' Remuneration

Director	Number Granted	Grant Date	Value per Option ($)	Exercise Price per Share ($)	First Exercise Date[1]	Last Exercise Date
Robert Champion de Crespigny AC	1,500,000	4/2/05	0.62 – 1.43	5.00	29/8/07	4/2/12
William Wavish	1,000,000	4/2/05	0.62 – 1.32	5.00	29/8/07	4/2/12
Total	**2,500,000**					

1 The first exercisable date for the options is the date immediately after the results for the year ending 30 June 2007. This date is assumed to be 29 August 2007.

Shareholdings of Directors

Directors' shareholdings, including personally related entities, at balance date were as follows:

Name of Specified Director	Shares Held in the Company*	Options Held in the Company**
Robert Champion de Crespigny AC	4,000,000	1,500,000
William Wavish	–	1,000,000
Phillip Green	1,600,001	–
Robert Topfer	400,001	–
Rex Comb	–	–

* Other than the two founding shares all other shares were acquired under the IPO. There have been no other movement in Directors' shareholdings.

** All options were issued under the Option Plan. There were no other movements in Directors' options.

Other transactions with Directors

Under the Prospectus issued for the IPO on 24 December 2004, Babcock & Brown Limited, the parent entity of the Management Company, subscribed for shares in the Company either directly or indirectly.

Directors Rex Comb, Phil Green and Robert Topfer are all Executive Directors of the Babcock & Brown Group. The Babcock & Brown Group provides services to the Group on an arm's length basis. These services are described in the related parties note (Note 19) under "Management Company's Fees". In addition to the direct shareholdings held by the Directors in the Company, the Babcock & Brown Group holds 12,133,700 of the Partly Paid Shares in the Company. Shares held directly by specified Directors are shown in the table above.

Notes to the Financial Statements continued

for the Period Ended 30 June 2005

19 Related Parties

Directors and Specified Executives
Disclosures relating to Directors and specified executives are set out in Note 18.

Consolidated Group
The consolidated group consists of Babcock & Brown Capital Limited and its controlled entities. Ownership interests in these controlled entities are set out below:

Name of Subsidiary	Country of Incorporation	Ownership Interest
Babcock & Brown Capital Investments Pty Ltd	Australia	100.0%
Babcock & Brown Capital Investments 2 Pty Ltd	Australia	100.0%
B&B Capital (Germany) Management GmbH*	Germany	100.0%
B&B Capital (Germany) GmbH & Co KG**	Germany	80.0%

* B&B Capital (Germany) Management GmbH has a financial year ending 31 December.
** B&B Capital (Germany) GmbH & Co KG is a limited liability partnership, in which B&B Capital (Germany) Management GmbH is the personally liable partner.

All subsidiaries were incorporated in the current period and remained dormant to 30 June 2005.

Directors' Loans and Other Transactions
There were no loans or other transactions made to or from the Directors of the Company during the financial period.

Other Related Party Transactions
A current receivable of $196,870 is payable as at 30 June 2005 by Babcock & Brown Australia Pty Ltd to the Company.

Management Company's Fee
Under the terms of the Management Agreement the Management Company provides designated and non-designated services in return for a fee. The Management Company for the period was Babcock & Brown Securities Pty Ltd. Babcock & Brown Capital Management Pty Ltd will become the Management Company subsequent to the issue of the appropriate Australian Financial Services Licence.

The term of the Management Agreement is 25 years, subject to early termination. The fee is calculated as follows:

Percentage of Raised Capital Invested in Authorised Investments	Annual Management Fee
Less than 30%	Nil. Subject to reimbursement of costs incurred by the Management Company.
At least 30% (at any time) but less than 50%	1% of the value of Net Assets shown in the most recent half-yearly or annual audited balance sheet.
At least 50% (at any time) but less than 75%	1.5% of the value of Net Assets in the most recent half-yearly or annual audited balance sheet.
At least 75% (at any time)	2% of the value of Net Assets in the most recent half-yearly or annual audited balance sheet.

19 Related Parties continued

In addition to the management fee structure, the Management Agreement provides that the Management Fee must at least equal the amount of costs which the Management Company has incurred in its role. Given that the Company remains uninvested at period end, these administration and other costs form the reimbursement of costs incurred by the Management Company, payable under the Management Agreement. The fees paid or payable during the period were:

Management fee	$nil
Performance fee	$nil
Break fee	$nil
Adviser's fee	$nil
Administration expenses	$438,905
Other costs	$36,500

Performance Fee
The Management Company is entitled to receive an annual Performance Fee calculated by reference to the pre-tax Total Shareholder Return (TSR) as follows:

Pre-tax Shareholder Return	Annual Performance Fee
Between 10% and 25%	20% of the amount (if any) by which the actual TSR exceeds a notional 10% pre-tax TSR but is equal to or less than a notional 25% pre-tax TSR; and
Above 25%	30% of the amount (if any) by which the actual TSR exceeds a notional 25% pre-tax TSR, less: the aggregate of any Performance Fees previously paid by the Company to the Management Company during the term of the Management Agreement.

The Performance Fee is calculated on a cumulative basis such that TSR must continue to exceed the return benchmarks before any additional Performance Fee is payable. TSR is calculated in accordance with the Management Agreement by reference to:

- The difference between amounts paid by shareholders for any subscription for Company shares and the value of those shares as at the end of each measurement period; and
- Dividends and/or other distributions received by shareholders in respect of those shares during the measurement period.

If the calculation of the Performance Fee results in a negative figure, no Performance Fee will be paid to the Management Company.

Break Fee
The Management Company is entitled to one-third of the value of any break, termination or other similar fees received by the Company in connection with any proposed investment.

Adviser's Fee
In addition to the management fee and performance fees payable to the Management Company, Babcock & Brown Australia Pty Ltd has been appointed as the Preferred Adviser. Babcock & Brown Australia Pty Ltd is a controlled entity of Babcock & Brown Limited. The fees payable under the Preferred Adviser mandate are determined on the basis of the investment proposal presented by Babcock & Brown Australia Pty Ltd to the Company.

Notes to the Financial Statements continued

for the Period Ended 30 June 2005

	Consolidated 2005 $'000	Parent 2005 $'000
20 Auditor's Remuneration		
During the period the following fees were paid to the Group auditor:		
Assurance Services		
Audit services		
Fees paid to PricewaterhouseCoopers Australian firm:		
Audit of financial statements	79,000	79,000
Other audit services	37,500	37,500
Total audit fees	**116,500**	**116,500**

The Company has not engaged the statutory auditor, PricewaterhouseCoopers, to provide any other non-audit services during the period to 30 June 2005. It remains the intention of the Board that other service providers will be engaged in preference to PricewaterhouseCoopers, such that non-audit services will not be provided by PricewaterhouseCoopers.

The Audit and Risk Management Committee has completed an evaluation of the overall effectiveness and independence of the auditor, PricewaterhouseCoopers. As part of this process, the external auditor has provided a written statement confirming their independence.

21 Subsequent Events

There are no subsequent events to report.

22 Contingent Liabilities

There are no contingent liabilities to report.

23 International Financial Reporting Standards

The Australian Accounting Standards Board (AASB) has adopted International Financial Reporting Standards effective from 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has released interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to International Financial Reporting Standards (AIFRS) will be first reflected in the Group's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

The transitional rules for adoption require the restatement of comparative financial statements using AIFRS. Comparative information will be required to be restated effective from the date of incorporation of 8 December 2004 until 30 June 2005.

During the period, the Company performed a risk-based assessment of the key impacts expected to arise from changes in accounting policies to report in accordance with AIFRS requirements. In order to facilitate this assessment, the Company established a project team to manage and plan the transition to AIFRS. The project team provides updates to the Audit and Risk Management Committee and the external auditors.

23 International Financial Reporting Standards continued

The project team has analysed all of the AIFRS and has identified the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards. These choices have been analysed to determine the most appropriate accounting policy for the Group.

The known or reliably estimable impacts on the financial statements for the period ended 30 June 2005 had it been prepared using AIFRS are set out below. No material impacts are expected in relation to the statement of cash flows.

Although the adjustments disclosed in the note are based on management's best knowledge of expected standards and interpretations and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the Company prepares its first full AIFRS financial statements, the possibility exists that the accompanying disclosures may have to be adjusted.

These transitional impacts together with the key changes in accounting policies are as follows:

Share-Based payments
A total of 2.5 million share options were issued to Non-Executive Directors under the Non-Executive Directors' Option Plan.

In accordance with AASB 2 "Share-based Payment", all share-based payments made to all employees and Directors will be required to be recognised as an expense in respect of the services received, pro-rated over the period of service. This will result in a change to the Group's accounting policy which does not recognise an expense in respect of these items. As at 30 June 2005, the options issued to Non-Executive Directors under the Option Plan represent the only share-based payments in the Group.

Transitional impact on the Group
If the policy required by AASB 2 had been applied during the period ended 30 June 2005, consolidated and parent entity profits would have been $0.40 million lower, with a corresponding increase to employee share-based payment reserve.

Income Tax
Under AASB 112 "Income Taxes" deferred tax balances are determined using the "balance sheet" approach which calculates temporary differences based on the carrying amount of an entity's assets and liabilities in the statement of financial position and their associated tax bases. This might result in the recognition of additional deferred tax assets and liabilities. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which tax balances are determined using the income statement method, whereby items are only tax effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

The change in accounting policy will also affect the recognition of future tax losses. Tax losses incurred in the Group under the change in accounting policy will be recognised as an asset to the extent that future taxable profits are probable of realisation, as opposed to the current test which requires virtual certainty.

Notes to the Financial Statements continued

for the Period Ended 30 June 2005

23 International Financial Reporting Standards continued

Transitional impact on the Group

If the policy required by AASB 112 had been applied during the period ended 30 June 2005, consolidated and parent entity equity would have been $6.514 million higher with a corresponding increase to the deferred tax asset. The change to the balance sheet approach would have recognised a temporary difference of $6.514 million, representing the tax effect of the future deductible share issue costs as at 30 June 2005.

Goodwill

Future acquisitions and business combinations are likely to result in the recognition of goodwill. Under AASB 3 "Business Combinations" goodwill will no longer be able to be amortised but instead will be subject to annual impairment testing.

Transitional impact on the Group

No Goodwill exists at this point. Financial impact is therefore nil.

Financial Instruments

The Group will be taking advantage of the exemption under AASB 1 to apply AASB 132: "Financial Instruments: Disclosure and Presentation" and AASB 139 "Financial Instruments: Recognition and Measurement" only from 1 July 2005. This allows the Group to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information for financial instruments within the scope of AASB 132 and AASB 139 in the 30 June 2006 financial statements.

In accordance with AASB 139 "Financial Instruments: Recognition and Measurement" financial assets will be classified into four categories which will, in turn, determine the accounting treatment of the item. The classifications are loans and receivables – measured at amortised cost; held to maturity assets – measured at amortised cost; held for trading assets – measured at fair value; and available for sale assets – measured at fair value, with movements taken to equity.

Under AASB 139, classifications of loans and receivables and financial liabilities will remain unchanged. Measurement of these instruments will initially be at fair value with subsequent measurement at amortised cost using the effective interest rate method. Impairment will be recognised when there is objective evidence that they are impaired.

As a result of the application of the exemption referred to above, there would have been no adjustment to classification or measurement of financial assets or liabilities from the application of AIFRS during the period ended 30 June 2005. Changes in classification and measurement will be recognised from 1 July 2005.

Transitional impact on the Group

No transitional impact. The Company will adopt the exemption available under AASB 1: "First Time Adoption of AIFRS" and apply the financial instruments standards from 1 July 2005.

Directors' Declaration

The Directors declare that the financial statements and notes set out on pages 27 to 48:

(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the Company's and the Consolidated Entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows for the financial period 8 December 2004 to 30 June 2005.

In the Directors' opinion:

(a) the financial statements and notes are in accordance with the *Corporations Act 2001*; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have received and considered the certification from the Chief Executive Officer and Chief Financial Officer of the Management Company supporting the financial statements for the period ended 30 June 2005, as required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors.

Robert Champion de Crespigny AC
Chairman

Rex Comb
Chief Executive Officer
of the Management Company

Sydney
29 August 2005

PRICEWATERHOUSECOOPERS

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Independent audit report to the members of Babcock & Brown Capital Limited

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report of Babcock & Brown Capital Limited (the Company) and the Babcock & Brown Capital Group (defined below) for the financial period ended 30 June 2005 included on Babcock & Brown Capital Limited web site. The Company's directors are responsible for the integrity of the Babcock & Brown Capital Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Audit opinion

In our opinion the financial report of Babcock & Brown Capital Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Babcock & Brown Capital Limited and the Babcock & Brown Capital Group (defined below) as at 30 June 2005, and of their performance for the period ended on that date, and

- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Babcock & Brown Capital Limited (the company) and the Babcock & Brown Capital Group (the consolidated entity), for the period ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that period.

PRICEWATERHOUSECOOPERS

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach
We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

Russell Sutton
Partner

Melbourne 29 August 2005

ASX additional information continued

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is as follows. The information is current as at the commencement of trade on 29 August 2005.

(a) Distribution of Equity Securities

The number of shareholders by size of holding, in each class of share is:

Range	Number of Holders	Ordinary Shares Number of Shares	Voting (%)
1-1,000	236	201,294	0.10
1,001-5,000	5,510	16,878,115	8.44
5,001-10,000	1,820	15,134,553	7.57
10,001-100,000	1,427	42,941,388	21.47
100,001 and over	124	124,844,650	62.42
	9,117	**200,000,000**	**100.00**

The number of shareholders holding less than a marketable parcel at the commencement of trade on 29 August 2005 is four.

(b) 20 Largest Shareholders

The names of the 20 largest holders of quoted shares of the Company at the commencement of trade on 29 August 2005 are:

Holder		Number of Shares	Voting (%)
1	ANZ Nominees Limited	29,745,327	14.87
2	MLEQ Nominees Pty Ltd	8,402,231	4.20
3	UBS Private Clients Australia Nominees Pty Ltd	6,408,309	3.20
4	Westpac Custodian Nominees Limited	5,567,749	2.78
5	Citicorp Nominees Pty Limited	5,146,292	2.57
6	Westpac Financial Services Limited	4,949,399	2.47
7	Albany Bay R V Investments Pty Limited	4,000,000	2.00
8	National Nominees Pty Limited	3,342,152	1.67
9	Brispot Nominees Pty Limited	2,822,517	1.41
10	Tricom Nominees Pty Limited	2,400,000	1.20
11	IAG Nominees Pty Limited	2,047,326	1.02
12	Westpac Life Insurance Serviced Limited	2,017,540	1.01
13	14 Portland Street Pty Limited (Portland Unit A/C)	2,000,000	1.00
13	Chriswall Holdings Pty Ltd	2,000,000	1.00
15	Citicorp Nominees Pty Limited (CFSIL WS AUST SHARE A/C)	1,816,419	0.91
16	Citicorp Nominees Pty Limited (CFSIL CWLTH BOFF SUPER A/C)	1,729,428	0.86
17	Mr Phillip Hartley Green	1,600,001	0.80
18	ASG Holdings Pty Ltd (Danny Goldberg Family A/C)	1,600,000	0.80
19	Fortis Clearing Nominees Pty Limited	1,321,241	0.66
20	Radley Investment Co Pty Limited	1,230,000	0.62
Total for Top 20		**90,145,930**	**45.08**

(c) Number and Class of Shares that are Restricted or subject to Voluntary Escrow

There are 10,000,000 ordinary shares in the Company which are subject to voluntary escrow. These shares are 100% owned by Babcock & Brown Limited and will be released from escrow on 4 February 2010, being five years from the allotment date of the partly paid shares.

(d) Substantial Shareholders

The names of substantial shareholders as at 29 August 2005 are:

Holder	Number of Shares	Voting (%)
ANZ Nominees Limited	29,745,327	14.87
Babcock & Brown Limited	12,133,700	6.07

(e) Voting Rights

At meetings of the shareholders of the Company, on a show of hands each shareholder will have one vote.

On a poll, the voting rights attaching to a share in the Company will be one vote for each fully paid ordinary share.

(f) On-market Buy-back

The Company has no on-market buy-back currently in place.

Corporate information

Company Secretaries of Babcock & Brown Capital Limited
Paul Ferguson
Sarah Zanon

Principal registered office
Level 39, the Chifley Tower
2 Chifley Square
Sydney NSW 2000
Australia

Location of unit register
ASX Perpetual Registrars Limited
Level 8, 580 George Street
Sydney NSW 2000
Australia

Stock exchange
Australian Stock Exchange

Management Company
The Management Company is initially Babcock & Brown Securities Pty Ltd (BBS) and then Babcock and Brown Capital Management Pty Ltd (BBCM) once it has been issued with an appropriate Australian Financial Services Licence (AFSL). The Management Agreement is therefore an agreement between the Company, BBS and BBCM.

Auditors
PricewaterhouseCoopers

Internet address
www.babcockbrowncapital.com

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