THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised for the purposes of the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

If you have sold or transferred all your Ordinary Shares in Ashley House, you should send this document, together with the accompanying Form of Proxy, to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

The Directors of Ashley House and the Proposed Directors, whose names appear on page 3 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Proposed Directors, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Babcock & Brown Directors, as defined on page 3 of this document, accept responsibility for the information contained in this document relating to Babcock & Brown. To the best of the knowledge and belief of the Babcock & Brown Directors, who have taken all reasonable care to ensure such is the case; the information contained in this document in relation to Babcock & Brown is in accordance with the facts and does not omit anything likely to affect the import of such information.

This document, which relates to Ashley House, has been prepared in accordance with the City Code on Takeovers and Mergers.

ASHLEY HOUSE PLC

(Incorporated in England and Wales under registered number 2563627)

Notice of General Meeting in relation to the acquisition of interests in LIFTCos from Babcock & Brown

Waiver of Rule 9 of the City Code on Takeovers and Mergers

Proposed Increase of Authorised Share Capital

Proposed Authority to Allot Shares

Numis, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting for the Company in relation to the proposals contained in this document. No representation or warranty, express or implied, is made by Numis as to any of the contents of this document (without limiting the statutory rights of any person to whom this document is issued). Numis will not be offering advice and will not otherwise be responsible to anyone other than the Company for providing the protections afforded to customers of Numis or for providing advice in relation to the contents of this document or any other matter. Numis is acting as nominated adviser and broker to the Company in connection with the arrangements described in this document. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document.

Notice of a General Meeting of the Company, to be held at the office of Hammonds, 7 Devonshire Square, London EC2M 4YH at 10.00 a.m. on 11 June 2008 is set out at the end of this document. Shareholders will find enclosed a Form of Proxy for use at the General Meeting. To be valid, the Form of Proxy should be completed and returned in accordance with the instructions printed thereon as soon as possible and in any event so as to be received by the Company's registrars, no later than 48 hours before the time appointed for holding the General Meeting. Completion and posting of the Form of Proxy will not prevent a Shareholder from attending and voting in person at the General Meeting.

CONTENTS

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Circular posted to Shareholders	19 May 2008
Latest time and date for receipt of Forms of Proxy in respect of the General Meeting	10.00 a.m. 9 June 2008
General Meeting	11 June 2008
New Ordinary Shares admitted to trading on AIM	12 June 2008

DIRECTORS, SECRETARY AND ADVISERS

Directors:	Sir William Wells *(Non-Executive Chairman)* Stephen Gregory Minion *(Executive Deputy Chairman)* Jonathan Holmes *(Chief Executive)* Bruce Layland Walker *(Finance Director)* Nigel Keith Croxford *(Construction Director)* Richard Edward Lubbock Warner *(Commercial Director)* Gail Mosley *(Executive Director)* Andrew Gibson MBE *(Non-Executive Director)* Jake Arnold-Forster *(Non-Executive Director)* John Coghlan *(Non-Executive Director)*
Company Secretary:	Stephen Ronaldson
Registered Office:	Ashley House plc The Priory Stomp Road Burnham Buckinghamshire SL1 7LW
Nominated Adviser & Broker:	Numis Securities Limited 10 Paternoster Square London EC4M 7LT
Auditors:	Grant Thornton UK LLP 1 Westminster Way Oxford OX2 0PZ
Solicitors to the Company:	Hammonds 2 Park Lane Leeds LS3 1ES
Registrars:	Capita IRG plc of Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU
Proposed Directors:	(Allan) Cameron Cook *(Non-Executive Director)* Giles James Frost *(Non-Executive Director)*
Babcock & Brown Directors:	Phillip Green *(Chief Executive)* Michael Sharpe *(Non-Executive Director)* Martin Rey *(Executive Director)* Joe Roby *(Non-Executive Director)* James Fantaci *(Executive Director)* James Babcock *(Executive Chairman)* (Geoffrey) Ian Martin *(Non-Executive Director)* Elizabeth Nosworthy *(Non-Executive Director & Deputy Chairman)* Dieter Rampl *(Non-Executive Director)*

DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

"Act"	the Companies Act 1985 and the Companies Act 2006 from time to time and as they are supplemented and amended
"Acquisition"	means the acquisition by the Company of the issued "A" share capital of IGL, AEL Holdings and ALH Holdings from BBIH as further described in Part I
"Admission"	admission of the New Ordinary Shares to trading on AIM
"AHMP"	AH Medical Properties plc, a company incorporated in England and Wales with company number 4188281
"AIM"	the market of that name operated by the London Stock Exchange
"AIM Rules"	the rules governing the admission to, and operation of, AIM published by the London Stock Exchange
"Babcock & Brown"	Babcock & Brown Limited, a company incorporated in Victoria, Australia (with registered number ACN 108 614 955) or any subsidiary or related party, including BBIPL
"Babcock & Brown UK"	Babcock & Brown Limited, a company incorporated in England and Wales with company number 2645511, a subsidiary of Babcock & Brown
"Babcock & Brown Directors"	the Directors of Babcock & Brown at the date of this document, whose names are set out on page 3 of this document
"BBIH"	Babcock & Brown Investment Holdings Pty Ltd, a company incorporated in Victoria, Australia with registered number ACN 110 013 851, a wholly owned subsidiary of BBIPL
"BBIPL"	Babcock & Brown International Pty Ltd, a company incorporated in Victoria, Australia with registered number ACN 108 617 483, the operating holding company which is 87.77 per cent. owned by Babcock & Brown and which owns 100 per cent. of BBIH
"Company" or "Ashley House"	Ashley House Plc, a company incorporated in England and Wales with company number 2563627
"City Code"	The City Code on Takeovers and Mergers
"Code Waiver"	the waiver by the Panel, conditional upon the passing of the Whitewash Resolution, of the obligation on BBIH (arising as a result of the issue of New Ordinary Shares to BBIH pursuant to the Acquisition) that may otherwise arise under Rule 9 of the City Code to make a mandatory cash offer for the issued Ordinary Shares not already owned by BBIH
"CREST"	the computer based system and procedures which enable title to securities to be evidenced and transferred without a written instrument and which is operated by CRESTCo
"CRESTCo"	CRESTCo Limited, the operator of CREST

"Directors" or "Board"	the Directors of the Company at the date of this document, whose names are set out on page 3 of this document
"Irrevocable Undertakings"	the irrevocable undertakings of the Directors to vote in favour of the Resolutions in respect of the Shares in relation to which they are the registered holders as described in Part I of this document
"Enlarged Share Capital"	together, the Existing Ordinary Shares and the New Ordinary Shares
"Existing Ordinary Shares"	the Ordinary Shares in issue on the date of this document
"Financial Advisory and Investment Agreement"	the financial advisory and investment agreement to be entered into between Babcock & Brown UK and the Company on completion of the Acquisition, as further described in Part V of this document
"Form of Proxy"	the form of proxy enclosed with this document for use by Shareholders in connection with the General Meeting
"General Meeting"	the general meeting at the Company (or any adjournment of such meeting) convened for 10.00 a.m. on 11 June 2008 to be held at the office of Hammonds, 7 Devonshire Square, London, EC2M 4YH for which the notice is set out at the end of this document
"Group"	the Company and its subsidiaries
"London Stock Exchange"	London Stock Exchange plc
"New Ordinary Shares"	the 15,880,000 Ordinary Shares in aggregate to be issued by the Company pursuant to the Acquisition and the exercise of the Warrant
"Numis"	Numis Securities Limited, the Company's Nominated Adviser and Broker (a company incorporated in England and Wales with company number 2285918)
"Official List"	the Official List of the UK Listing Authority
"Ordinary Shares" or "Shares"	Ordinary Shares of 1p each in the capital of the Company
"Panel"	the Panel on Takeovers and Mergers
"Proposals"	together, the Code Waiver and the implementation of the Acquisition
"Proposed Directors"	the Proposed Directors of the Company at the date of this document, whose names are set out on page 3 of this document
"Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
"Relationship Agreement"	the relationship agreement to be entered into between BBIH and the Company at completion of the Acquisition, as further described in Part V of this document
"Resolutions"	the resolutions set out in the notice of General Meeting at the end of this document
"Shareholders"	holders of Ordinary Shares

"Shareholders Agreements"	the shareholders agreements to be entered into between BBIH and the Company relating to the shares in IGL and AEL Holdings and ALH Holdings on completion of the Acquisition, as further described in Part V of this document
"Share Purchase Agreement"	the share purchase agreement entered into between the Company and BBIH relating to the Acquisition, as further disclosed in Part V of this document
"Warrant"	the warrant to subscribe for 7,880,000 Ordinary Shares at a subscription price of 120p per Ordinary Share entered into between the Company and Babcock & Brown UK on 16 December 2006
"Whitewash Resolution"	Resolution number 1 in the notice of General Meeting at the end of this document, in relation to approval by independent Shareholders of the Code Waiver

GLOSSARY

"AEL Holdings"	AHBB ELL Holdings Ltd a newly incorporated company formed for the purpose of the Acquisition
"ALH Holdings"	AHBB LHIL Holdings Ltd a newly incorporated company formed for the purpose of the Acquisition
"BBG Lift"	Bexley Bromley and Greenwich Lift Company Limited a company incorporated in England and Wales with company number 5049706
"BHH Lift"	Brent Harrow and Hillingdon Lift Company Limited a company incorporated in England and Wales with company number 5049694
"Bristol Lift"	Bristol Infracare Lift Limited a company incorporated in England and Wales with company number 4899270
"CHP"	Community Health Partnerships (formerly known as Partnerships for Health)
"Dudley Lift"	Dudley Infracare Lift Limited a company incorporated in England and Wales with company number 5450724
"East London Lift"	East London Lift Company Limited a company incorporated in England and Wales with company number 4573567
"ELLIL"	East London Lift Investments Limited, a company incorporated in England and Wales with company number 4659483
"GSL"	GSL Joint Ventures Limited a company incorporated in England and Wales with company number 4031538
"IBL"	Infracare Bristol Limited a company incorporated in England and Wales with company number 4951854
"ICL"	Infracare Capital Limited a company incorporated in England and Wales with company number 5017735
"IDL"	Infracare Dudley Limited a company incorporated in England and Wales with company number 5450735
"IGL"	Infracare Group Limited a company incorporated in England and Wales with company number 5017870
"IML"	Infracare Midlands Limited a company incorporated in England and Wales with company number 4644802
"IOL"	Infracare Oxford Limited a company incorporated in England and Wales with company number 4951877
"IPL"	Infracare Partnering Limited a company incorporated in England and Wales with company number 04613605
"ISWL"	Infracare South West Limited a company incorporated in England and Wales with company number 4613608

"LIFTCo"	A company set up with a 20 year exclusive mandate in a particular region to deliver NHS LIFT projects, comprising 60 per cent. private sector shareholders, 20 per cent. PCT shareholders and 20 per cent. CHP shareholders; consisting in the context of the Acquisition of BBG Lift, BHH Lift, Bristol Lift, Dudley Lift, East London Lift, Oxford Lift and Wolverhampton and Walsall Lift
"LHIL"	Lift Healthcare Investments Limited, a company incorporated in England and Wales with company number 5254277
"NHS"	The National Health Service, established in 1948, is the national public health service for England. Funded through the use of taxes, the service aims to provide care for all that is free at the point of delivery. Services are provided by a wide range of professionals in both hospital and community settings with a vision of providing appropriate care closer to home
"NHS LIFT" or "LIFT"	Local Improvement Finance Trust (introduced by the Department of Health) is a vehicle for improving and developing frontline primary and community care facilities designed to allow PCTs and other public bodies to re-provide and expand local health and social care infrastructure
"Oxford Lift"	Oxford Infracare Lift Limited a company incorporated in England and Wales with company number 5016817
"PCT"	Primary Care Trusts are statutory bodies responsible for the delivery of health care and health improvements to their local area. Accounting for approximately 80 per cent. of NHS spending, they directly provide a range of community health services; support the development and delivery of general practice; provide funding for GPs and medical prescriptions; and commission hospital and mental health services from appropriate NHS trusts and/or the private/voluntary sector
"Primary Care"	The care provided when a patient first has a health problem, provided mainly by GPs but also for example, dentists, opticians, pharmacists, NHS Walk-in-Centres and the phone line service of the NHS
"Strategic Partnering Agreements"	the Framework Agreements entered into by the LIFTCos and the various public sector parties thereto relating to the development, redevelopment and refurbishment and financing of certain health and social care related infrastructure projects in a defined geographic area
"Wolverhampton and Walsall Lift"	Healthcare Improvement Partnership (Wolverhampton City and Walsall) Limited a company incorporated in England and Wales with company number 4969456

PART I

LETTER FROM THE CHAIRMAN OF

ASHLEY HOUSE PLC

(Incorporated in England and Wales under registered number 2563627)

Directors:
Sir William Wells *(Non-Executive Chairman)*
Stephen Gregory Minion *(Executive Deputy Chairman)*
Jonathan Holmes *(Chief Executive)*
Bruce Layland Walker *(Finance Director)*
Nigel Keith Croxford *(Construction Director)*
Richard Edward Lubbock Warner *(Commercial Director)*
Gail Mosley *(Executive Director)*
Andrew Gibson MBE *(Non-Executive Director)*
Jake Arnold-Forster *(Non-Executive Director)*
John Coghlan *(Non-Executive Director)*

Registered Office:
Ashley House plc
The Priory
Stomp Road
Burnham
Buckinghamshire
SL1 7LW

Date: 19 May 2008

Dear Shareholder

Acquisition of interests in LIFTCos from Babcock & Brown

1. Introduction

Today the Company has announced that it has entered into an agreement with BBIH, a subsidiary of Babcock & Brown pursuant to which the Company will acquire a controlling interest in companies which control the management of the private sector shareholder in seven NHS Local Improvement Finance Trusts ("LIFT") (other than one company where the private sector shareholder is jointly controlled with a joint venture partner) for a total consideration of up to approximately £45 million (the "Acquisition"). Details of these interests are set out in paragraph 3 of this Part I of this document.

I am writing to give you further details of the Acquisition, including the background to and reasons for it, to explain why your Board considers it to be in the best interests of the Company and to seek your approval of the Resolutions at the General Meeting to enable the Company to issue the New Ordinary Shares. The notice convening the General Meeting is set out at the end of this document.

2. Background to and reasons for the Acquisition

NHS LIFT was established by the Department of Health as a method of delivering a significant upgrade and reconfiguration of the Primary Care estate. The initiative provided that the successful private sector bidder along with members of the local health economy and a national body (Partnerships for Health now Community Health Partnerships (CHP)) would incorporate a joint venture company (LIFTCo) which would have a 20 year exclusive agreement to deliver all PCT led Primary Care premises developments in a defined geographical area. Each LIFTCo is in essence a public private partnership for delivering Primary Care premises in the relevant locality.

Each LIFTCo was incorporated so that the private sector partners would own 60 per cent. of the LIFTCo, the local PCTs together with other members of the local health and social care economy would own 20 per cent. and CHP would own the remaining 20 per cent.

Of the 152 PCTs, 94 have an involvement with LIFT. Babcock & Brown (via BBIH) has interests in 7 of the 46 LIFTCos making it one of the largest private sector participants in NHS LIFT. The identified pipeline of work over the next 3 years in these 7 LIFTCos amounts to approximately £300 million in total development cost.

In January 2007, the Company entered into a strategic alliance with Babcock & Brown whereby the Company and Babcock & Brown agreed to work together in the sub £20 million health and social care market place (including NHS LIFT, the community hospital initiative and health parks). This relationship has developed well over the past 12 months with the parties bringing complementary skills to the alliance. As a consequence the two parties are now seeking to strengthen their relationship and exposure to the wider health and social care market place.

Under the original agreement, Babcock & Brown agreed to provide certain management consulting services to Ashley House in relation to the provision by Ashley House of design and build services and construction management services to help Ashley House in its efforts to win more tendered government sponsored work, to increase its exposure to the delivery of LIFT schemes and to assist it in bidding for other health related infrastructure projects in the sub £20 million market. In return, Ashley House granted Babcock & Brown UK a Warrant over 7,880,000 Shares in Ashley House at an exercise price of 120p per share and agreed to pay Babcock & Brown UK consultancy fees for providing the relevant services to Ashley House.

Over the past 12 months it has become apparent to both parties that it would be beneficial to all, including the public sector partners in the LIFTCos, for Ashley House to take over Babcock & Brown's role as lead development partner in each of the 7 LIFTCos in which it invests. In order to do this Ashley House would take over operational control of the companies which control the relevant private sector shareholding entity for each LIFTCo. This would enable the LIFTCos to take advantage of the full range of Ashley House's in-house resources which are dedicated to the delivery of Primary Care infrastructure. Both parties believe that this should result in a more effective and efficient delivery process for individual schemes while at the same time enabling Ashley House and each of the LIFTCos to continue to benefit from Babcock & Brown's involvement as an investment partner, financial advisor and transaction structuring advisor (as appropriate).

The key benefits of the proposed transaction for Ashley House will be the increased exposure to a larger number of NHS LIFT projects with the increased opportunity to deliver design and construction services to the 7 LIFTCos (always having regard to the value for money framework within which NHS LIFT operates and any subsisting third party contracts), to earn development fees as a consequence of taking over the development responsibility and to bring in Babcock & Brown as a strategic shareholder in Ashley House as the business seeks to grow.

Ashley House is therefore proposing to acquire Babcock & Brown's controlling interest in companies which are responsible for the management of the private sector shareholding and/or the delivery of development schemes in the 7 LIFTCos (other than East London LIFT where the private sector partner is jointly controlled with a joint venture partner), thereby assuming the management responsibility for those companies together with the obligation to deliver development advice and services to the relevant LIFTCo, and, subject to value for money testing required in LIFT, the ability to deliver construction and design services to the pipeline of LIFT projects. Babcock & Brown will remain involved, sitting on LIFTCo boards and retaining their LIFT asset investments and the right to invest in future LIFT asset investment opportunities and, subject to delivering value for money, their role as financial adviser for LIFT projects. By undertaking this transaction and the associated pipeline of future work Ashley House, with Babcock & Brown, will become one of the largest participants in NHS LIFT.

In consideration for the acquisition, Ashley House will pay BBIH £14.0 million in cash and will issue 8.0 million new Shares to BBIH. Additional deferred consideration of up to £19.0 million in cash will become payable to BBIH depending upon the number of schemes completed and the gross profit achieved from the LIFT projects over the following 3.5 year period. Of the initial consideration, £4.5 million will be funded from existing cash flows and £9.5 million will be funded by cash received from BBIH following the exercise of the Warrant.

The New Ordinary Shares will, when issued and fully paid, rank *parri passu* in all respects with the Ordinary Shares, including the right to receive all dividends and other distributions thereafter declared, made or paid on the Ordinary Shares.

BBIH will also enter into a Relationship Agreement with the Company conditional on completion of the Acquisition under the terms of which BBIH will agree that a majority of the Board will remain independent of BBIH and that all dealings between the Company and BBIH will be undertaken on an arm's length basis. Babcock & Brown will have the right (subject to the approval of Shareholders at the Company's annual general meeting) to appoint two non executive directors to the board of directors of Ashley House. The provisions of the Relationship Agreement will cease to apply if Babcock & Brown's interest is reduced to below 25 per cent. of the Company's issued share capital (other than Babcock & Brown's right to appoint two non executive directors which will cease to apply if Babcock & Brown's interest is reduced below 20 per cent. of the Company's issued share capital). Further details of the Relationship Agreement are set out in Part V of this document.

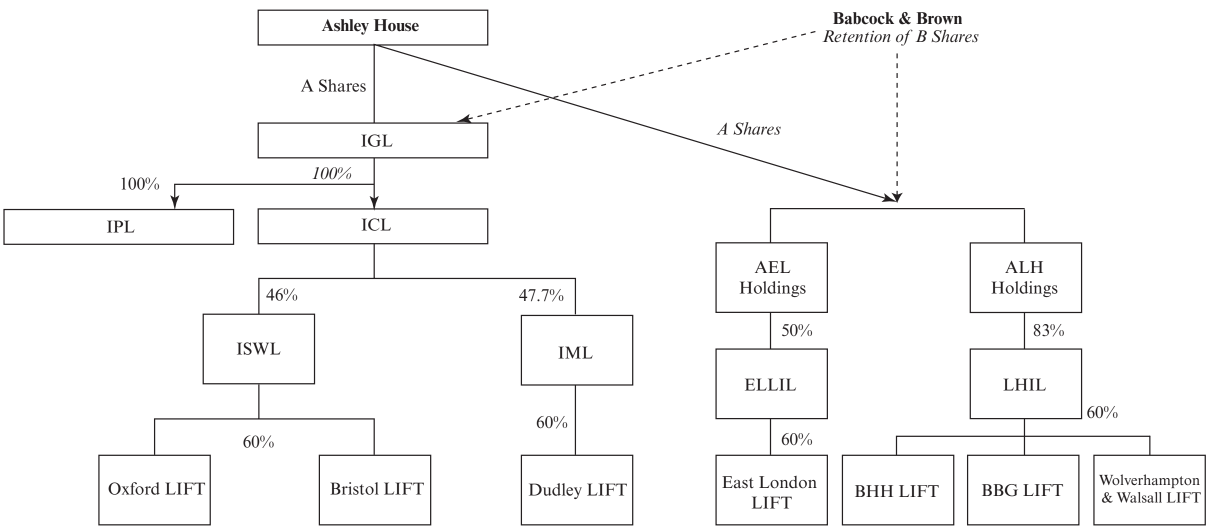
Babcock & Brown share the Directors' ambition to seek to grow the Company significantly as the changes to the delivery of primary healthcare continue to drive the reconfiguration of the Primary Care estate. By having a robust "third party developer" business as well as a significant design and development role in NHS LIFT, Ashley House should be well positioned to participate in the delivery of the new Primary Care estate and expand its wider healthcare infrastructure business. The Directors believe that the Acquisition will be earnings enhancing in the first full financial year following completion and thereafter (however, this should not be interpreted to mean that earnings per share will necessarily be greater than those for the relevant preceding financial period).

3. Summary of the Acquisition

The Company has agreed to acquire the issued A share capital of IGL, AEL Holdings and ALH Holdings from BBIH.

AEL Holdings owns 50 per cent. of ELLIL which in turn owns 60 per cent. of East London LIFT. ALH Holdings owns 83 per cent. of LHIL which in turn owns the 60 per cent. private sector investment in the share capital of BHH LIFT, BBG LIFT and Wolverhampton & Walsall LIFT.

ICL which is a 100 per cent. owned subsidiary of IGL, owns 46.0 per cent. of the issued share capital of ISWL and 47.7 per cent. of the issued share capital of IML. These companies in turn own the 60.0 per cent. private sector investment in the share capital of Oxford Lift and Bristol Lift (in the case of ISWL) and Dudley Lift (in the case of IML). IGL also owns IPL, the operating company which provides development services to Oxford LIFT, Bristol LIFT and Dudley LIFT. A simplified group organisation chart is set out below.



The A shares in each of IGL, AEL Holdings and ALH Holdings will entitle the Company to exercise day to day control of the operation and management of the companies being acquired and, subject to the terms of the relevant Strategic Partnering Agreements and any service level agreements, to provide development services to each of the relevant LIFTCos. The B shares in IGL, AEL Holdings and ALH Holdings will be retained by Babcock & Brown (or entities related to Babcock & Brown) and deliver, along with the right to investments in the completed projects undertaken for the LIFTCos to date, the right, subject to the terms of the relevant Strategic Partnering Agreements, to participate in the investment in future projects developed for the LIFTCos.

Under the terms of the acquisition agreement the Company will pay the following consideration to BBIH:

(a) initial cash consideration of £14.0 million;

(b) 8,000,000 New Ordinary Shares issued, credited as fully paid; and

(c) up to £19.0 million in cash as additional consideration payable dependent on the number of schemes that reach financial close and the gross profits achieved over the next 3.5 years from the LIFT businesses acquired.

The amount payable referred to in paragraph (c) above is subject to a cap of £19.0 million.

In connection with the proposed arrangements Babcock & Brown has agreed to consider the provision of further funding to the Company by way of loan to assist future expansion and will be entering into an agreement relating to the provision of financial advisory services by Babcock & Brown to the Company.

Further details of the Share Purchase Agreement relating to the acquisition of the A Shares in IGL, AEL Holdings and AHL Holdings, the Shareholders Agreements and articles of association relating to the A shares and B shares in IGL, AEL Holdings and ALH Holdings, the Financial Advisory and Investment Agreement and the Relationship Agreement are set out in Part V. The historical profits attributable to the assets being acquired by Ashley House are estimated, based on their respective last financial year ends, to be approximately £2 million in aggregate. Due to the nature of the transaction described by this document the Directors do not believe that this is representative of the anticipated profit streams available to the Company as a result of the Acquisition.

4. Capital raising and reduction of shareholding

i. Reduction of Babcock & Brown shareholding

Following the completion of the Acquisition, Babcock & Brown will be interested in 15,880,000 Shares representing 36.6 per cent. of the Enlarged Share Capital. Babcock & Brown's current intention is to remain a long term investor in the Company and it will enter into a lock-in agreement on completion of the Acquisition pursuant to which it will agree not to sell any shares other than with the consent of Numis for a period of 12 months following the posting of this document to Shareholders. Babcock & Brown's holding will also be subject to an orderly market provision for a further 12 months following the expiry of the lock-in period.

Notwithstanding their current intention to remain a long term strategic investor, Babcock & Brown has indicated that it wishes to reduce its strategic investment to not less than 20 per cent. of the Enlarged Share Capital. This will be undertaken through a placing which is expected to be completed, subject to market conditions, the day following completion of the Acquisition. To the extent such Ordinary Shares are not placed on behalf of Babcock & Brown, Numis and the Company have agreed that Numis will use its reasonable endeavours, on reasonable market terms, to place such Ordinary Shares subsequently.

ii. Potential capital raising by the Company

The Directors believe that the outlook for the Primary Care sector offers significant opportunities for the Company. Ashley House is therefore intending to raise further capital, the day following completion of the Acquisition, subject to market conditions, to enable the Company to participate in a number of investment opportunities which the Directors have identified.

The Directors are therefore seeking Shareholder approval pursuant to section 95 of the Act to disapply section 89(1) of the Act to issue up to 4,400,000 new Ordinary Shares representing approximately 10 per cent. of the Enlarged Share Capital, such authority to expire at the conclusion of the next Annual General Meeting.

The Company has agreed with Babcock & Brown and Numis that the reduction of Babcock & Brown's holding referred to above will take place in priority to the proposed raising of further capital by the Company to the extent that there is insufficient market appetite to satisfy in full the proposed reduction and capital raising.

5. Financial Trading and Prospects

The core business delivering Primary Care infrastructure continues to grow well with the Company now receiving design fees from the NHS LIFT programme. Ashley House is currently working on 21 NHS LIFT schemes, seven of which have achieved LIFTCo board and participant board approvals (it is at this point Ashley House's costs are underwritten subject to delivering value for money and achieving the agreed affordability of the scheme). This progress is a direct consequence of the strategic alliance with Babcock & Brown which the Proposals seek to strengthen.

The Company is also benefiting from the continued growth of the portfolio owned by AH Medical Properties plc which Ashley House has the contract to manage, and from the Clinical Services initiatives which are now generating revenue from the pharmacy joint venture business and from the first JV provider contracts.

As mentioned in the interim results announced on 4 December 2007, the Directors believe that the outlook for the Primary Care sector offers significant opportunity for the Company. Health Minister Lord Darzi's report identified the need for increased health and social care infrastructure investment and there has been a marked shift in Government policy away from the acute sector and towards the provision of as much care as possible in a primary and community care setting.

The Directors continue to believe that the Company is well positioned to benefit from this favourable market background and expects the pre-tax profit for the year ending 30 April 2008 to be in line with market expectations. The Directors believe that the Acquisition will be earnings enhancing in the first full financial year following completion and thereafter (however, this should not be interpreted to mean that earnings per share will necessarily be greater than those for the relevant preceding financial period).

6. Board Changes

It is proposed that Babcock & Brown appoint two non-executive Directors to the Ashley House Board. Currently, Ashley House has four non-executive Directors and six executive Directors. There will remain four non-executive Directors who are not nominated by Babcock & Brown and a Relationship Agreement has been entered into, which will ensure, while it remains in force, that there will remain a majority of independent Directors and that a majority of independent Directors must approve any matter involving BBIH. The provisions of the Relationship Agreement will apply so long as Babcock & Brown retains an interest of at least 25 per cent. in the share capital of the Company (other than in relation to Babcock & Brown's right to appoint two non-executive Director's which will apply so long as Babcock & Brown retains an interest of at least 20 per cent. in the share capital of the Company).

It is proposed that the following are appointed to the Board of Ashley House as non-executive Directors on completion of the transaction:

(Allan) Cameron Cook

Cameron Cook is a principal financier with Babcock & Brown where he has been employed since 2001 working primarily in the PPP/PFI sector with a particular focus on NHS LIFT. He has worked on the development activity and financial closures for 23 separate LIFT primary and social care centres up to the end of March 2008, and is actively involved in all Babcock & Brown LIFT areas. Prior to joining Babcock & Brown he trained as a Chartered Accountant with Ernst & Young, where he qualified as an ACA in 1998 and worked within the project finance team of the corporate finance practice. He is a Director in the Bexley Bromley & Greenwich LIFT group of companies, of Infracare (Midlands) Limited, of Infracare (South West) Limited and also of Integrated Health Partners Limited.

Giles James Frost

Giles Frost is joint head of the European public infrastructure business unit at Babcock & Brown. He has been employed at Babcock & Brown since 2000 and has been involved in the development, investment in and management of projects in the public infrastructure sector throughout this time. Prior to joining Babcock & Brown he was a solicitor and partner in the law firm Wilde Sapte (now Denton Wilde Sapte). Giles is also a director of Babcock & Brown Public Partnerships Limited, a London Stock Exchange listed investment company which invests principally in infrastructure projects developed within the public sector around the world.

The Appendix to this document sets out the names of companies and partnerships of which Cameron Cook and Giles Frost have been directors or partners at any time in the previous five years, indicating whether or not they are still a director or partner.

There are no other matters which are required to be announced pursuant to paragraph (g) of Schedule 2 to the AIM Rules.

With two further directors set to join the board and in accordance with good corporate governance, it has been decided to reduce the number of executive directors on the Board of the Company. With effect from today, Nigel Croxford, Gail Mosley and Richard Warner have agreed to resign from the main Board of Ashley House plc. As the Company continues to grow Nigel and Richard's roles, leading respectively the delivery and development of health infrastructure, are becoming more intensive and are clearly crucial to the success of the Company's LIFT and traditional business. The change in their roles will allow them to achieve greater focus on their executive roles and both will assume greater responsibility on the Company's executive management group. Meanwhile Gail, with her substantial experience of the healthcare sector will continue to play a vital role in mentoring the Company's new business teams.

The Board wants to record its thanks to all three for their contribution in bringing the Company to where it is now and to their continued dedication at the core of the Company's activities.

7. The Takeover Code

The terms of the Proposals set out in this letter give rise to certain considerations under the City Code. Brief details of the Panel, the City Code and the protection they afford to Shareholders are described below.

The City Code is issued and administered by the Panel. The City Code applies to all takeover and merger transactions (and certain other related transactions), however effected, when the offeree company is, *inter alia*, a listed or unlisted public company resident in the United Kingdom (and to private companies in certain circumstances) and, where not listed on a regulated market, are considered by the Panel to have their place of central management and control in the United Kingdom. The Company is a public company resident in the United Kingdom and managed and controlled in the United Kingdom and as such its Shareholders are therefore entitled to the protections afforded by the City Code.

Under Rule 9 of the City Code, where any person acquires, whether by a single transaction or a series of transactions over a period of time, an interest in shares which (taken together with shares in which persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of a company, that person is normally required by the Panel to make a general offer, in cash, to the shareholders of that company to acquire the balance of the equity share capital and any other class of transferable security carrying voting rights of the company at the highest price paid by that person or any person acting in concert with him in the previous 12 months.

Rule 9 of the City Code further provides that, *inter alia*, where any person who, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of a company but does not hold shares carrying more than 50 per cent. of such voting rights and such person, or any such person acting in concert with him, acquires an interest in additional shares which increase his percentage of shares carrying voting rights, such person is normally required by the Panel to make a general offer to the shareholders of that company to acquire the balance of the equity share capital and every other class of transferable security carrying voting rights of the company at the highest price paid by that person or any person acting in concert with him in the previous 12 months.

Following the issue of the New Ordinary Shares, Babcock & Brown (and persons acting in concert with Babcock & Brown) will be interested in 15,880,000 Shares representing 36.6 per cent. of the Enlarged Share Capital but will not hold shares carrying more than 50 per cent. of such voting rights and any further increase in that interest in shares will be subject to the provisions of Rule 9.

The Panel has agreed, however, to waive the obligation to make a general offer that would otherwise arise as a result of the Proposals, subject to the approval of independent Shareholders. Accordingly, Resolution 1 (as set out in the notice convening the General Meeting) is being proposed at the General Meeting to be passed on a poll by the independent Shareholders. To be passed, Resolution 1 will require a simple majority of the votes cast by the independent Shareholders. For the purposes of Resolution 1 all of the Shareholders are considered to be independent Shareholders (as defined by the Code).

8. Information on Babcock & Brown Limited

(a) ***Background information on Babcock & Brown Limited***

Babcock & Brown is an international investment and specialised fund and asset management group with longstanding capabilities in structured finance and the creation, syndication and management of asset and cash flow-based investments. Babcock & Brown was founded in 1977 and is listed on the Australian Securities Exchange. Babcock & Brown has four operating divisions including real estate, infrastructure, operating leasing and corporate and structured finance. The company has established a funds management platform across the operating divisions that has resulted in the creation of a number of focused investment vehicles in areas including real estate, renewable energy and infrastructure.

(b) ***Location***

Babcock & Brown's corporate headquarters are located at Level 23, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia. Babcock & Brown operates from over 30 offices across Australia, North America, Europe, Asia, United Arab Emirates and Africa and has in excess of 1,400 employees worldwide.

(c) ***Relationship with Babcock & Brown Investment Holdings Pty Limited***

The Babcock & Brown Group consists of Babcock & Brown Limited ("BBL"), a company limited by shares, incorporated in Australia, and listed on the ASX, and Babcock & Brown International Pty Ltd ("BBIPL"), a 87.77 per cent. (2006: 78 per cent.) owned subsidiary. BBIPL in turn owns the Babcock & Brown operating and investment subsidiaries located in Australia, North America, Europe and Asia Pacific. Babcock & Brown Investment Holdings Pty Limited ("BBIH") is a wholly owned subsidiary of BBIPL.

(d) ***Investment strategy***

Investment philosophy

Babcock & Brown will only make an investment after rigorous research and analysis, appropriate structuring to mitigate risk and optimise financing, and the identification of a comfortable margin of safety between the investment price and intrinsic value. Return hurdles for investments are risk-adjusted, taking full account of the downside risk and liquidity of any investment situation as well as Babcock & Brown's ability to enhance the return in the future.

In principal investment activities, Babcock & Brown has a mindset of treating its investors' capital as if it were its own. Babcock & Brown Executives continue to be significant investors alongside the Group's clients in its transactions and investment products, deploying their personal capital on the same terms as other third-party investors. This mindset underpins Babcock & Brown's investment philosophy.

Identifying investments

Babcock & Brown uses its capital across its four operating divisions to generate investment returns, to secure assets for its investment-management activities and to co-invest with its clients.

Babcock & Brown generally seeks to identify investments that it believes have some or all of the following characteristics:

- Within the areas of expertise and experience of Babcock & Brown's Business Groups

- Mispriced or undervalued in their market
- Predictable cashflows and/or asset values
- Value can be added through more efficient financing, more active management and/or strategic repositioning
- In sectors in which Babcock & Brown has developed relationships with strong management teams and other operating partners
- Risk can be mitigated through appropriate financial, legal, tax and accounting structures
- Significant opportunities for financial and structural optimisation.

Babcock & Brown frequently invests in opportunities originated from its longstanding relationship network. It is also prepared to acquire interests in listed vehicles where it believes there is inherent value that can be added or is not recognised by the public markets.

Babcock & Brown's key investment criterion is that the proposed investment meets risk-adjusted return hurdles that are determined by taking into account all identified downside risks and the liquidity and potential return of the investment.

(e) ***Similar Investment***

The Infrastructure Division has an integrated principal investment and long-term fund and asset management model. Origination of assets for investment is either through development on Babcock & Brown's Balance Sheet, sometimes in conjunction with partners, or through the acquisition of existing assets in negotiated transactions or, in some instances, competitive tenders.

The Division has established a competitive advantage for its specialised fund and asset management platform through its development pipeline which is reflected on Babcock & Brown's Balance Sheet at cost and in some instances, where appropriate to the investment mandate, on the balance sheet of its externally managed funds. The book value of the Division's development pipeline at 31 December 2007 was AUD$1.2 billion.

(f) ***Intentions***

Babcock & Brown has no specific intentions regarding the future business of the Company nor any strategic plans for the Company other than to support the current Board's strategy for the Company and, therefore, there are no repercussions on employment and the locations of the Company's places of business. Babcock & Brown has no current intention to redeploy the Company's fixed assets.

Babcock & Brown's current intention is to remain a long term investor in the Company and it will enter into a lock-in agreement on completion of the Acquisition pursuant to which it will agree not to sell any shares other than with the consent of Numis for a period of 12 months following the posting of this document to Shareholders. Additionally, Babcock & Brown's holding will also be subject to an orderly market provision for 12 months following the expiry of the lock-in period.

Notwithstanding Babcock & Brown's current intention to remain a long term strategic investor, it is proposed that shortly, following the completion of the Acquisition and subject to market conditions, Babcock & Brown will reduce its strategic investment to not less than 20 per cent. of the Enlarged Share Capital. This will be undertaken through a placing which is expected to be completed, subject to market conditions, the day following completion of the Acquisition. To the extent such Ordinary Shares are not placed on behalf of Babcock & Brown, Numis and the Company have agreed that Numis will use its reasonable endeavours, on reasonable market terms, to place such Ordinary Shares subsequently.

9. General Meeting

You will find at the end of this document a notice convening a General Meeting of the Company, to be held at 10.00 a.m. on 11 June 2008 at Hammonds 7 Devonshire Square London EC2M 4YH, at which the following Resolutions will be proposed:

Resolution 1 (the Whitewash Resolution)

The first Resolution is an ordinary resolution and relates to the waiver of the application of Rule 9 of the City Code in respect of the Proposals described above. The Panel has confirmed that, subject to the first Resolution being passed by the requisite majority of the independent Shareholders on a poll, no mandatory bid obligation under Rule 9 of the City Code would be triggered by virtue of the Proposals.

Voting on the Whitewash Resolution will be by way of poll, and following the General Meeting, the Company will announce its result.

Resolution 2

The second Resolution is an ordinary resolution and relates to the share capital authorities required to provide flexibility for additional share issues in the future.

If passed, the authorities granted by this Resolution will replace the prior share issue authorities of the Company obtained at the last general meeting of the Company and will:

(1) increase the authorised share capital of the Company by the creation of 16,000,000 Ordinary Shares; and

(2) provide your Board with authority to allot Ordinary Shares in connection with the Acquisition and otherwise up to a maximum aggregate nominal amount of £235,700.

Resolution 3

The third Resolution is a special resolution and relates to the share capital authorities required to enable the Company to issue additional shares for cash on a non pre-emptive basis.

If passed, the authority granted by this Resolution will replace the prior shareholder authority of the Company to issue shares for cash and will provide your Board with authority to allot up to 4,400,000 Ordinary Shares for cash on a non pre-emptive basis.

10. Action to be taken

You will find enclosed a Form of Proxy for use at the General Meeting. Please complete, sign and return the Form of Proxy as soon as possible in accordance with the instructions printed thereon. Whether or not you intend to be present at the General Meeting, you are requested to complete the enclosed Form of Proxy and return it to the Company's registrars, Capita IRG plc, so as to arrive as soon as possible and in any event no later than 48 hours before the time appointed for the General Meeting. Completion and return of the Form of Proxy will not preclude you from attending the General Meeting and voting in person should you subsequently find that you are able to be present.

11. Admission to AIM

Application will be made to the London Stock Exchange for all of the New Ordinary Shares to be admitted to trading on AIM. Conditional upon the passing of the Resolutions, Admission is expected to become effective and trading in the New Ordinary Shares will commence on 12 June 2008.

12. Additional information

Your attention is drawn to the additional information in Parts II to VI of this document.

13. Irrevocable commitments

The Directors have given irrevocable undertakings to Babcock & Brown to vote in favour of the Resolutions in respect of 8,838,143 Ordinary Shares, representing approximately 32.1 per cent. of the Ordinary Shares.

14. Recommendation

The Proposals constitute a related party transaction for the purposes of the AIM rules. The Directors having been so advised by Numis, the Company's nominated adviser, consider that the terms of the Proposals and the Code Waiver are fair and reasonable insofar as independent Shareholders are concerned and in the best interests of the Company and its Shareholders as a whole.

In providing advice to the Directors, Numis has taken into account the Directors' commercial assessments.

The Directors recommend, for the reasons set out above, that you vote in favour of the Resolutions to be proposed at the General Meeting, as they intend to do in respect of their own shareholdings, which in aggregate amount to 8,838,143 Ordinary Shares representing approximately 32.1 per cent. of the issued voting share capital of the Company as at the date of this document.

Yours Sincerely

Sir William Wells
Non-Executive Chairman

PART II

PRO FORMA STATEMENT OF NET ASSETS OF ASHLEY HOUSE

The unaudited pro forma statement of net assets of the Group has been prepared for illustrative purposes only to show the effect of the Acquisition (as described in Part I of this document) on the latest published balance sheet of the Group. This pro forma statement of net assets has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the enlarged Group. It has been compiled on the basis described below.

	Consolidated Ashley House 31 October 2007 Note 1 £'000	*Consideration (based on £45 million) Note 2 £'000*	*Proportionate assets and liabilities acquired Note 3 £'000*	*Elimination of investment Note 4 £'000*	*Enlarged Group Pro forma net assets £'000*
Goodwill and other intangible assets	270	–	–	42,803	43,073
Property, plant and equipment	348		41		389
Non-current investments	1,387	45,000	–	(45,000)	1,387
Trade and other receivables	6,732	–	1,193	–	7,925
Cash and cash equivalents	6,666	(4,544)	2,039	–	4,161
Trade and other payables	(4,379)		–	–	(4,379)
Non-current liabilities	–	(19,000)	(1,076)	–	(20,076)
Net assets	11,024	21,456	2,197	(2,197)	32,480
Share capital	275	159	35	(35)	434
Share premium	8,040	21,297	–	–	29,337
Share based payment reserve	1,421	–	–	–	1,421
Retained earnings	1,288	–	2,162	(2,162)	1,288
Total equity	11,024	21,456	2,197	(2,197)	32,480
Total assets	15,403	40,456	3,273	(2,197)	56,935
Total liabilities	(4,379)	(19,000)	(1,076)	–	(24,455)
Net assets	11,024	21,456	2,197	(2,197)	32,480

Notes:

1. The statement of net assets of the Company is extracted from the unaudited consolidated interim balance sheet as at 31 October 2007 as included in the interim announcement of Ashley House issued on 3 December 2007.
2. The consideration represents the maximum consideration payable in cash and shares in respect of the Acquisition as described in Part 1 of this document.
3. The proportionate assets and liabilities acquired represent the Group's estimate of its share of the assets and liabilities of the entities in which Ashley House is acquiring an interest based on the audited financial information of these companies at 30 September 2006, with the exception of IGL, ICL, IPL, LHIL, BBG Lift, BHH Lift, Wolverhampton & Walsall Lift, ELLIL and East London Lift which is based on the audited financial information at 31 December 2006.
4. The elimination of investment represents an estimate of the consolidation accounting adjustment that will be required to replace Ashley House's investment in the relevant net assets with its share of the underlying assets and liabilities acquired.
5. It has been assumed for the purpose of this pro forma that no fair value adjustments are required.
6. The pro forma statement of net assets does not take into account any trading or other activity save as disclosed above since 31 October 2007.

PART III

(A) FINANCIAL INFORMATION ON ASHLEY HOUSE

The figures set out comprise the last three years profit & loss accounts, the balance sheet at 30 April 2007 and the cashflow statement for the year ended 30 April 2007. These figures were prepared and audited under UK GAAP.

Consolidated profit and loss account for the year ended 30 April 2007

	2007 Total £'000	*2006 Total (Restated*)* £'000	*2005 Total* £'000
Turnover	25,644	23,126	12,597
Cost of sales	(18,307)	(17,995)	(9,364)
Gross profit	7,337	5,131	3,233
Recurring administrative expenses	(3,392)	(2,887)	(2,401)
Non recurring transaction costs	(1,551)	–	–
Operating expenses	(4,943)	(2,887)	(2,401)
Operating profit	2,394	2,244	832
Profit on sale of fixed asset	137	–	–
Net interest	127	(30)	(116)
Profit on ordinary activities before taxation	2,658	2,214	716
Tax on profit on ordinary activities	(1,321)	(454)	–
Profit for the financial year	1,337	1,760	716
Basic earnings per share	5.54p	8.04p	5.74p
Diluted earnings per share	4.78p	7.31p	5.65p
Dividend per share	**5.0p**	**4.0p**	**Nil**

*restated due to adoption of FRS 20

Balance sheet at 30 April 2007

	2007 £'000
Fixed assets	
Intangible assets	203
Tangible assets	200
Investments	1,850
	2,253
Current assets	
Debtors	7,392
Cash at bank and in hand	6,073
	13,465
Creditors: amounts falling due within one year	(4,682)
Net current assets	8,783
Total assets less current liabilities	11,036
Creditors: amounts falling due after more than one year	–
Net assets	11,036
Capital and reserves	
Called up share capital	275
Share premium account	8,040
Share based payments reserve	1,421
Profit and loss account	1,300
Shareholders' funds	11,036

Consolidated cash flow statement for the year ended 30 April 2007

	2007 *£'000*
Net cash inflow from operating activities	2,389
Returns on investments and servicing of finance	
Interest paid	(14)
Interest received	137
Net cash inflow from returns on investments and servicing of finance	123
Taxation	(937)
Capital expenditure and financial investment	
Sale of tangible fixed assets	1,337
Purchase of tangible fixed assets	(87)
Purchase of investments	(1,850)
Net cash outflow from capital expenditure and financial investment	(600)
Financing	
Issue of share capital	4,970
Dividends paid	(1,374)
Net cash inflow from financing	3,596
Increase in cash	4,571

Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards (UK GAAP) and under the historical cost convention, with the exception of the revaluation of land and buildings. The principal accounting policies of the group are set out below. The policies have remained unchanged from the previous year apart from the adoption of FRS 20 'Share-based Payment'. This change is described in more detail below.

Changes in accounting policies

In preparing the financial statements for the current year, the group has adopted FRS 20 'Share-based Payment' (IFRS 2). In accordance with FRS 20, the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period of the share options or warrants based upon the group's estimate of share options and warrants that will eventually vest. The fair value has been measured by the use of a binomial lattice pricing model. Following the adoption of FRS 20, a prior year adjustment has been made to decrease the profit and loss reserve brought forward at 1 May 2006, and create a share option reserve, of £165,000 to reflect the option charge which would have been incurred in the previous years and the year ended 30 April 2006 had FRS 20 been adopted earlier. The profit and loss account for the year ended 30 April 2006 has been restated to reflect the share-based payment charge of £40,000 for that year. The group recognised total expenses of £1,256,000 relating to equity-settled share-based payment transactions in the year ended 30 April 2007. £1,085,000 of this related to the grant to Babcock & Brown of warrants over 7,880,000 shares at £1.20 per share as part of the strategic alliance entered into with them.

Basis of consolidation

The group financial statements consolidate those of the company and of its subsidiary undertakings. Profits or losses on intra-group transactions are eliminated in full. All of the subsidiary's assets and liabilities that existed at the date of acquisition were recorded at their fair values reflecting their condition at that date.

Turnover

Turnover is the total of amounts for goods supplied and services provided during the year, excluding value-added tax. In the case of long-term contracts, turnover reflects the contract activity during the year and represents the proportion of total contract value which costs incurred to date bear to total expected contract costs. Turnover on long-term contracts is only recognised where there is reasonable certainty that the contract will proceed and planning permission has been obtained.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets, other than freehold land, on the reducing balance basis over their expected useful economic lives.

The periods generally applicable are:

Office equipment, furniture and fixtures	4 years
Motor vehicles	4 years
Mobile surgeries	4 years

Investments

Investments are included at cost less provision for amounts written off.

Work in progress and long-term contracts

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal levels of activity. Costs associated with long-term contracts are included in stock to the extent that they cannot be matched with contract work accounted for as turnover. Long-term contract balances included in stocks are stated at cost, after provision has been made for any foreseeable losses and the deduction of applicable payments on account. No element of profit is included in the carrying value of work in progress. Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Financial instruments

Income and expenditure arising on financial instruments is recognised on the accruals basis, and is credited or charged to the profit and loss account in the financial period to which it relates.

Intangible assets – goodwill

Goodwill, representing the excess of the fair value of consideration given over the fair values of the identifiable net assets acquired, is capitalised and amortised on a straight-line basis over its estimated useful economic life.

(B) INTERIM RESULTS FOR ASHLEY HOUSE FOR THE SIX MONTHS ENDED 31 OCTOBER 2007

The unaudited interim accounts for the six months to 31 October 2007 were prepared under IFRS.

Condensed consolidated interim income statement for the six months to 31 October 2007

	Unaudited 6 months to 31 October 2007 £'000
Revenue	9,978
Cost of sales	(6,458)
Gross profit	3,520
Administrative expenses	(1,837)
Depreciation, amortisation and impairment of non-financial assets	(97)
Operating profit	1,586
Finance income	188
Profit on ordinary activities before tax	1,774
Income tax expense	(532)
Profit for the period	1,242
Earnings per share:	
Basic earnings per share	4.51p
Diluted earnings per share	3.98p
Interim dividend	**2.3p**

Basis of Accounting

The interim financial statements have been prepared following the recognition and measurements principals of IFRS. The next financial statements will be prepared in accordance with IFRS as adopted in the UK.

The disclosures concerning the transition from the UK GAAP to IFRS are provided on the Group's website at http://www.ashleyhouseplc.com.

The principal accounting policies are set out below.

Basis of preparation

The financial statements will be prepared on the going concern basis, under the historical cost convention, except for the revaluation of certain financial instruments.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates.

Basis of consolidation

The consolidated financial statements will incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 April each year.

Intra-group transactions, balances, income and expenses are eliminated fully on consolidation.

Control is achieved where Ashley House plc has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

Intra-group balances are eliminated fully on consolidation.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the indefinable net assets acquired (i.e. discount on acquisition) is credited to profit or loss in the period of acquisition.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown, net of value-added tax and after eliminating sales within the group. Revenue from long term contracts is detailed below.

Long term contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date.

This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work and claims are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of the contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Design fees

Design fees are amounts receivable for design and architectural works carried out in design stage of long term contracts. Revenue is only recognised where there is reasonable certainty that the fees are underwritten.

Asset Management

Asset management fees relate to the provision of services to manage the property assets of AH Medical Properties plc and the income is recognised evenly throughout the period based upon the value of the managed assets.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date and at least annually thereafter.

On disposal of a subsidiary, the attributable net book value of goodwill is included in the determination of the profit or loss on disposal.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Property, Plant and Equipment

Property, plant and equipment is stated at the lower of cost or net present value, net of depreciation and any recognised impairment loss.

Depreciation is calculated to write down the cost or valuation less estimated residual value of all property, plant and equipment, other than freehold land, on the reducing balance basis over their expected useful economic lives.

The periods generally applicable are:

Office equipment, furniture and fixtures	4 years
Motor vehicles	4 years
Mobile surgeries	4 years

The residual value and the useful life of each asset are reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) are accounted for as a change in an accounting estimate.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

On the first adoption of IFRS the carrying value of property that had previously been revalued is shown at deemed cost, and subsequently revalued. The revaluation surplus that had been previously recognised is retained in the revaluation reserve and transferred to distributable reserves on disposal of the property.

Leased Assets

Leases where the third party lessor retains substantially all the risks and rewards of ownership are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Lease incentives received are recognised in the income statement on a straight-line basis as an integral part of the total lease expense.

Work in progress and long term contracts

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal levels of activity. Costs associated with long-term contracts are included in stock to the extent that they cannot be matched with contract work accounted for as turnover. Long-term contract balances included in stocks are stated at cost, after provision has been made for any foreseeable losses and the deduction of applicable payments on account. No element of profit is included in the carrying value of work in progress. Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

Financial Instruments

Financial assets and liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

Income and expenditure arising on financial instruments is recognised on the accruals basis, and credited or charged to the income statement in the financial period to which it relates.

Trade receivables

Trade receivables do not carry any interest and are stated at amortised cost using the effective interest method, less provision for impairment.

Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments are classified as either held-for-trade or available-for-sale, and are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period.

For available-for-sale investments, gains and losses arising for changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Trade Payables

Trade payables are not interest bearing and are stated at their amortised cost using the effective interest method.

Equity Instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Taxation

The charge for current tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax is provided in full and is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or any discount on acquisition) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Short-term employee benefit costs

The undiscounted amounts of short-term benefits attributable to services that have been rendered in the period are recognised as an expense, unless specifically required or permitted within the scope of IFRS reporting to be included in the cost of an asset.

Any difference between the amount of cost recognised and cash payments made is treated as a liability or prepayment as appropriate.

Share based payments

The group issues share options to its employees. The group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 May 2006.

The group issues equity-settled share-based payments to employees. Equity-settled share-based payments are measured at fair value at the date of grant.

The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest, updated at each balance sheet date.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Non-recurring costs

Non-recurring costs are disclosed separately in the income statement within the period in which they are incurred.

PART IV

FINANCIAL INFORMATION ON BABCOCK & BROWN

The figures set out comprise the last three years profit and loss statements, the balance sheet at 31 December 2007, the cashflow statement for the year ended 31 December 2007, and the statement of changes in equity for the year ended 31 December 2007. These figures were prepared in accordance with Australian equivalents to International Financing Reporting Standards ("AIFRS"), and were extracted from audited financial statements.

Unless stated otherwise, any reference to $ in this Part IV of this document is to Australian dollars.

Consolidated income statement for the year ended 31 December 2007

	Consolidated		
	2007	*2006*	*2005*
	AUD$'000	*AUD$'000*	*AUD$'000*
Revenue	2,019,341	1,420,798	670,223
Other Income	1,119,500	592,080	388,361
Expenses excluding finance costs and bonus expense	(1,368,069)	(900,028)	(423,547)
Finance costs	(662,511)	(361,799)	(117,044)
Share of net profits of associates and joint ventures	252,879	140,943	81,765
Bonus expense (including amortisation of share options and bonus deferral rights)	(573,440)	(414,120)	(266,796)
Profit before income tax	787,700	477,874	332,962
Income tax (expense)/benefit	(148,361)	(68,957)	(59,897)
Net profit for the year	639,339	408,917	273,065
Attributable to:			
Minority interest excluding BBIPL	(3,707)	2,106	21,428
BBIPL minority interest	117,897	98,173	71,649
Members of the Parent	525,149	308,638	179,988
Basic earnings per share (cents per share)	197.4¢	131.5¢	82.40¢
Diluted earnings per share (cents per share)	172.0¢	115.4¢	73.3¢
Dividends per share (cents per share)	54.4¢	29.25¢	8.75¢

Source: 2007, 2006, 2005 Audited Financial Statements

Consolidated balance sheet at 31 December 2007

	Consolidated 2007 AUD$'000
ASSETS	
Cash and cash equivalents	2,551,158
Fees receivable	199,501
Other receivables	620,804
Notes receivable	1,093,448
Investments in financial assets	452,022
Finance lease receivable	130,608
Transportation equipment	1,025,637
Semiconductor equipment	101,510
Power generation assets	230,502
Biofuel assets	163,853
Assets under development	1,663,429
Real estate held for sale	1,941,783
Real estate held as investment property	1,665,251
Investments in associates	1,917,295
Investments in joint venture entities	387,560
Property and equipment	98,045
Other assets	453,250
Derivative financial instruments	122,655
Deferred tax assets	462,731
Intangible assets and goodwill	357,255
Total Assets	15,638,297
LIABILITIES	
Accounts payable and accrued liabilities	1,019,012
Deposits held	164,778
Current tax liabilities	–
Deferred income	61,831
Interest bearing liabilities	11,357,567
Deferred tax liabilities	481,059
Other liabilities	40,446
Total liabilities	13,124,693
Net Assets	2,513,604
EQUITY	
Contributed equity	1,590,478
Reserves	(586,429)
Retained earnings	818,455
Parent entity interest in equity	1,822,504
Minority interest (excluding BBIPL)	304,148
BBIPL Minority Interest	386,952
Total Equity	2,513,604

Source: 2007 Audited Financial Statements

Consolidated cash flow statement for the year ended 31 December 2007

	Consolidated 2007 AUD$'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Fees received	1,014,733
Investment income received	631,195
Payments to vendors and employees	(1,645,566)
Interest received	159,981
Interest paid	(505,536)
Income tax paid	(161,580)
Net Cash Flows from/(used in) Operating Activities	(506,773)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment assets	
– Proceeds from sale	1,070,905
– Purchases	(4,377,262)
– Receipts from finance lease	34,303
– Deposits for asset purchases	(82,432)
Financial assets	
– Proceeds from sale	309,680
– Dividends received	52,804
– Purchases	(692,173)
Notes receivable	
– Payments received	971,535
– Fundings	(1,335,723)
Subsidiaries and associate	
– Proceeds from sales of investment in associates, net of cash disposed	68,480
– Proceeds/(outflows) from sales of controlled subsidiaries, net of cash disposed	701,511
– Purchase of controlled subsidiaries, net of cash acquired	(873,598)
– Investment in associates/subsidiaries	(806,207)
– Distributions received from associates	250,775
– Loans to subsidiaries	–
Property and equipment purchases	(54,914)
Maintenance reserves (deposits held)	57,606
Net Cash Flows used in Investing Activities	**(4,704,710)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds of borrowings	10,623,387
Repayments of borrowings.	(3,543,539)
Financing costs	(8,506)
Proceeds from issuance of ordinary capital	441,133
Capital raising costs	(6)
Dividends paid	(40,868)
Minority interest capital contributions	200,495
Minority interest capital distributions	(445,752)
Net Cash Flows from Financing Activities	**7,226,344**
Net increase/(decrease) in Cash and Cash E**quivalents**	2,014,861
Cash and cash equivalents brought forward	572,877
Effects of exchange rate changes on cash and cash equivalents	(36,580)
Closing Cash & Cash Equivalents Carried Forward	**2,551,158**

Source: 2007 Audited Financial Statements

Consolidated statement of changes in equity for the year ended 31 December 2007

	Consolidated	
	2007	*2006*
	$'000	*$'000*
Total Equity at 1 January	**1,712,045**	**1,114,811**
Total recognised income and expenses for the year:		
Available-for-sale financial assets, net of tax	(10,134)	8,158
Effective portion of changes in cash flow hedges, net of tax	(10,520)	19,358
Tax benefit from equity raising costs	453	3,224
Currency translation differences	(107,129)	(26,279)
Other reserves of associates	8,247	(5,671)
Net income/(expense) recognised directly in equity	(119,083)	(1,210)
Profit for the year	639,339	408,917
Total recognised income and expense for the year	**520,256**	**407,707**
Transactions with equity holders in their capacity as equity holders:		
Equity issued	510,537	620,199
Equity raising costs	–	(1,541)
Share based payments	124,949	69,500
Share acquisition reserve	(376,342)	(327,695)
Dividends paid	(110,352)	(66,086)
Change in minority interest	132,511	(104,850)
Total transactions with equity holders in their capacity as equity holders	**281,303**	**189,527**
Total Equity at 31 December	**2,513,604**	**1,712,045**
Total recognised income and expenses for the year is attributable to:		
Members of Babcock & Brown Limited	406,066	307,428
Minority interest	114,190	100,279
	520,256	**407,707**

Source: 2007 Audited Financial Statements

1. Summary of significant accounting policies – (source 2007 audited financial statements)

The financial report for the year ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors on 31 March 2008.

(A) Company structure

The Babcock & Brown Group ("Group" or "Babcock & Brown") consists of Babcock & Brown Limited ("BBL" or "the Company"), a company limited by shares, incorporated in Australia, and listed on the ASX, and Babcock & Brown International Pty Ltd ("BBIPL"), a 83 per cent. (2006: 78 per cent.) owned subsidiary. BBIPL in turn owns the Babcock & Brown operating and investment subsidiaries located in Australia, North America, Europe and Asia Pacific. The nature of the operations and principal activities of the Group are described in the Directors' Report.

(B) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"), other authoritative pronouncements of the Australian Accounting Standards Board, and the Corporations Act 2001. Compliance with AIFRS ensures that the financial report complies with International Financial Reporting Standards ("IFRS").

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

The financial report has been prepared on a historical cost basis, except for investment properties, derivative financial instruments held-for-trading and available-for-sale financial assets that have been measured at fair value.

Comparative Financial Information

Comparative financial information has been presented in respect of the year ended 31 December 2006 in accordance with the disclosure requirements of AASB 101, Presentation of Financial Statements ("AASB 101"). Specifically where required, comparative financial information has been provided in respect of each item in the Income Statements, Balance Sheets, Statements of Changes in Equity, Cash Flow Statements, Revenue and Expenses, Segment Information, Earnings per Share and Notes to the Financial Statements.

Rounding of Amounts

The Company is a kind referred to in Class Order 98/0100, issued by the Australian Securities Investment Commission, relating to "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 thousand dollar, or in certain cases, the nearest dollar.

(C) Basis of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Babcock & Brown Limited (the parent company) and all entities that Babcock & Brown Limited controlled from time to time during the year and at the reporting year. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

Where an entity either began or ceased to be controlled during the financial year, the results are included only from the date control commenced or up to the date control ceased. All intercompany balances and transactions, including unrealised profits and losses arising from intra-group transactions, have been eliminated in full. Minority interests in the equity and results of the entities that are controlled by Babcock & Brown Limited are shown as a separate item in the consolidated financial statements.

(D) Foreign currencies

Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). BBL's functional and presentation currency is Australian dollars.

Transactions and Balances

Transactions in foreign currencies of entities within the consolidated entity are converted to local 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 year. All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken to equity until the disposal of the net investment, at which time they are recognised in profit or loss. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Group Companies

Assets and liabilities of overseas operations are translated at the closing rate at the date of Balance Sheet whilst income and expenses in the Income Statement are translated at exchange rates at the date of transactions. Any exchange differences are taken directly to the foreign currency translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the spot rate at the end of the financial year.

(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 Cash Flow Statements, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest on bank overdrafts is recognised as an expense as it accrues.

(F) Receivables

Fees receivable are recognised and carried at original invoice amount less allowance for impairment for any uncollectible amounts. Fees receivable are non-interest bearing and are generally on 30 day terms, unless otherwise agreed with the customer. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

Notes receivable are carried at amortised cost, using the effective interest method. All notes receivable are reviewed regularly for impairment. A note receivable is considered impaired when, based on current information and events, it is probable that Babcock & Brown will be unable to collect all amounts due. The amount of the specific impairment provision is equal to the difference between the current carrying amount of a receivable and the net present value of the expected cash flows from the borrower, discounted at the original effective interest rate of the transaction. Any impairment provisions are included in the Income Statement in the year in which the asset is impaired.

Receivables from related parties are carried at amortised cost, using the effective interest method.

(G) Investments and other financial assets
Investments in Financial Assets

All investments are initially recognised at its fair value plus, in the case of investments not at fair value through profit and loss, transaction costs that are directly attributable to the acquisition.

After initial recognition, investments which are classified as held for trading or available-for-sale are measured at fair value. Gains or losses on investments held for trading are recognised in the Income Statement. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the Income Statement.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. The cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Net gains or losses on each category of financial instrument are determined excluding interest or dividend income. If a financial asset is not classified as fair value through profit and loss, and is not classified as loans and receivables or held to maturity, it will be classified as available for sale.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or calculated based on the expected cash flows of the underlying net asset base of the investment. Financial assets whose terms have been renegotiated are assessed for indicators of impairment at each balance sheet date.

Investments in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments are measured at cost in accordance with AASB 139 because its fair value cannot be measured reliably. Fair value cannot be reliably measured for such instruments due to either an un-established market existing, and/or infrequent trading activity. Details of such investments, including their carrying amount, are included in Note 11. The Group will assess whether and how the instruments are disposed of on a case by case basis dependent on various factors.

Other than those at fair value through profit & loss, financial assets, including those whose terms have been re-negotiated, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment has been impacted.

All regular way purchases or sales of financial assets are recognised on the settlement date i.e. the date that the asset is delivered to the Group. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

Investments Accounted for using the Equity Method

Investments in associates and joint venture entities are carried at the lower of the equity accounted amount and recoverable amount in the consolidated financial statements. Under the equity method of accounting, the investment is initially recorded at cost, subsequently adjusted for the Group's share of undistributed earnings or losses and changes in equity, and increased by additional investments in the associates and joint venture entities and reduced by cash distributions received. Any losses recognised under the equity method in excess of the equity investment in the associate or joint venture are applied to other components of Babcock & Brown's interest in the associate or joint venture, such as a note receivable, to the extent of those other interests. Fee income received from associates and joint venture entities is deferred when the associate or joint venture has capitalised the fee payment to the extent of the Group's equity investment in the associate or joint venture entity. Where there has been a change recognised in the associate's equity, the Group recognises its share of any changes and discloses this in the Statement of Changes in Equity. Associates accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investments in Jointly Controlled Assets

Interests in jointly controlled assets are recognised by including in the respective classifications, the share of individual assets employed, revenue earned and share of liabilities and expenses incurred. Interests in joint venture operations are recognised by including in the respective classifications, the assets controlled, liabilities and expenses incurred and the share of income earned from the sale of goods and services by the joint venture.

Investments in Controlled Entities

Investments in controlled entities are carried at cost, less any impairment provision.

(H) Transportation equipment

Transportation equipment consists primarily of aircraft and railcars. Aircraft and railcars are recorded at cost and depreciated on a straight line basis over the asset's remaining useful life to residual value.

Depreciation periods are:

Consolidated Balance Sheet as at 31 December 2007

	New asset	*Used asset*
Aircraft	25 years	25 years less current age
Railcars	40 years	40 years less current age

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate as at each financial year end. Transportation equipment held for trading is recorded at the lower of cost or net realisable value.

(I) Real estate

Real Estate Held for Sale or Development

Real estate acquired for development and/or sale in the ordinary course of business is carried at cost incurred to date. The net realisable value of each holding is assessed at each reporting year and a provision for diminution in value is raised where cost (including costs required to complete developments) exceeds net realisable value.

Real Estate Held as Investment Property

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is based on active market prices, adjusted for any difference in the nature, location or condition of the specific asset or where that is not available, an appropriate valuation method which may include discounted cashflow projections and the capitalisation method. Discount rates and capitalisation rates are determined based on the Company's industry knowledge and expertise and where possible, direct comparison to third party rates for similar assets in a comparable location. The fair value reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. It also reflects any cash outflows (excluding those relating to future capital expenditure) that could be expected in respect of the property. Gains or losses arising from changes in the fair values of investment properties are included in the Income Statement in the period in which they arise. Investment properties are derecognised when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on derecognition of an investment property are recognised in the Income Statement in the period of derecognition.

(J) Semiconductor equipment

Semiconductor equipment consists of assets that are purchased for the purposes of trading as well as equipment held for leasing to customers. Assets held for trading are recorded at the lower of cost or net realisable value. The leased equipment is held at cost and depreciated on a straight line basis over the equipment's lease term to its residual value.

The net realisable value is the estimated selling price in the ordinary course of business, less estimated selling costs.

(K) Power generation assets

Power generation assets are carried at cost less accumulated depreciation and impairment. Historical costs includes expenditure that is directly attributable to the item. Power generation assets are depreciated over their useful life, typically 25 years, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at each annual reporting period.

(L) Biofuel assets

Biofuel assets are carried at cost less accumulated depreciation and impairment. Historical costs includes expenditure that is directly attributable to the item. Biofuel assets are depreciated over their useful life, between 5 and 40 years, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at each annual reporting period.

(M) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying value is to be recovered principally through a sale rather than continuing use.

The assets must be available for immediate sale or, if the assets are acquired with a view to their subsequent disposal, within a short period following the acquisition. The future sale must be highly probable, the appropriate level of management committed to a plan to sell the assets and the assets actively marketed at a reasonable price in relation to their current fair value. The sale should be completed within one year from initial classification as held for sale.

On initial classification, a non-current asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell, unless acquired as part of a business combination when measurement is only based on fair value less costs to sell.

(N) Property and equipment

All classes of property and equipment are measured at cost and depreciated using the straight line method over the estimated useful life. The assets residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each annual reporting period.

Major depreciation periods are:

Furniture and Fixtures	7 years
Leasehold Improvements	The lease term
Computer Equipment	3 – 5 years

(O) Assets under development

Assets under development are recorded at the lower of cost or net realisable value and will be transferred to the appropriate class of asset when the development is completed and the asset is ready for use. Where the asset is a qualifying asset, cost will include any capitalised borrowing costs.

(P) Intangible assets and goodwill

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. The cost of an intangible asset acquired separately is the amount paid for the asset. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is recognised in profit or loss in the year in which expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are tested for impairment annually, and are not amortised. Amortisation expense is recognised in profit or loss in Asset Management expense.

A summary of the policies applied to the Group's intangible assets is as follows:

Management fee rights

Directly attributable costs that are incurred in respect of the acquisition or establishment of management fee rights are capitalised and amortised on a straight line basis over the remaining life of the respective management agreements (10 – 25 years).

Other Intangible Assets

Other intangible assets have a finite life and are amortised over their useful life (up to 25 years) and tested for impairment whenever there is an indication that the intangible asset may be impaired.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(Q) New business and project bidding costs

New business and project bidding costs (direct and external costs only) are capitalised and deferred to the extent that it is probable that a contract will be entered into and that the costs will be recoverable from future revenue. New business and project bidding costs are assessed for recoverability at the end of each reporting period to determine the amount, if any, which would require recognition as an expense in the Income Statement.

New business and project bidding costs, which have been capitalised and deferred, are recognised as an expense when the expected project revenue is recognised or the bid is unsuccessful.

(R) Recoverable amount of non-current assets

At the reporting date, the Group assesses whether there is any indication that non-current assets may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of a non-current asset exceeds its recoverable amount the non-current asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(S) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Group as a Lessor

Assets held under a finance lease are recognised in the Balance Sheet as a receivable at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

Leases in which the Group retains substantially all the risks and rewards of ownership of the leased asset are classified as operating leases. Lease income from operating leases is recognised as income on a straight line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term.

Group as a Lessee

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense. Contingent rentals are recognised as an expense in the financial period in which they are incurred.

(T) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. The amounts are unsecured and are usually paid within 30 days of recognition.

Payables to related parties are carried at the principal amount. Interest is recognised as an expense on an accrual basis.

(U) Deposits held

In the normal course of leasing aircraft to third parties under operating lease agreements, the Group receives deposits as rental security and monies to be applied against the future maintenance of aircraft.

(V) Interest-bearing loans and borrowings

All loans and notes payable are initially recognised at fair value of the consideration received less issue costs directly associated with the borrowings.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

(W) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

A provision for dividends is not recognised as a liability unless the dividends are declared, on or before the reporting date.

(X) Contributed equity and reserves

Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by BBL. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

Share-based payments reserve

The share-based payments reserve is used to record the movement arising from the issue, conversion and lapsing of share options and bonus deferral rights.

Cashflow hedge reserve

The cashflow hedge reserve is used to record the changes in fair value, net of related taxes, of derivative financial instruments that are effective in hedging interest rate and foreign currency risk in forecasted future cashflows at balance date.

Available-for-sale financial assets reserve

The available-for-sale financial assets reserve is used to record the changes in fair value, net of related taxes, of available-for-sale financial assets held throughout the period.

(Y) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised. Where amounts do not meet these recognition criteria, they are deferred and recognised in the period in which the recognition criteria are met.

Fees from financing transactions and management fees

Fees from financing transactions are recognised as revenue when the Group has provided all services necessary for a final closing of the transaction, the transaction has actually closed, the fee is payable, and the likelihood that any contingencies occurring that could result in a reduction of the fee is remote.

Fees from financing transactions include fees earned on asset sales that are payable to the Group on certain financings at the end of the financing term. On certain transactions, the fee earned on asset sales is equal to a share of the asset value above a specified minimum and such fees are recognised when the Group controls the right to receive the fee. Periodic management fees are received for management services provided for income producing assets owned by third parties. These fees are recognised as revenues as the management services are provided, and the Group controls the right to be compensated for the services provided.

Rental income

Rental income from aircraft, railcars and real estate leases, other than contingent rents, is recognised on a straight line basis over the respective lease terms. Contingent rents are recognised as revenue in the periods in which they are earned.

Sale of assets

Revenue from sales of assets is recognised at the time title is transferred or delivery has occurred, the price is fixed and determinable, and collectability is probable.

Interest

Interest income from loans and advances and other interest bearing assets is brought to account using the effective interest rate method. Accrued coupons, amortisation of premiums and accretion of discounts are brought to account as interest income on a yield to maturity basis in accordance with the terms of the security.

Dividends

Dividend revenue is recognised when the Group's right to receive the dividend is established.

(Z) Taxes

The income tax expense for the period is the tax payable on the current period's taxable income based on the notional tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and assessable temporary differences to measure the deferred tax asset or liability.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of distributions from controlled entities and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred Income

Tax liabilities are not recognised from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the account profit nor taxable profit or loss.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation

A portion of the deferred tax liability that was established to account for the tax values of assets impacted by the entry into tax consolidation in the prior year continues to be recognised. BBIPL is the head entity of the tax consolidated group.

Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No additional amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. In accordance with UIG 1052, the Group has applied a modified stand-alone taxpayer basis for current and deferred tax. Application of this method has not resulted in any equity transactions.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(AA) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date, in accordance with local statutory requirements. These benefits include wages and salaries, annual leave, long service leave, bonuses and share based payments.

Wages and Salaries, Annual Leave and Long Service Leave

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within 12 months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and

- other types of employee benefits

are recognised against profits in their respective categories.

Bonuses

A liability for employee benefits in the form of bonus plans is recognised in accrued liabilities when it is probable that the liability will be settled and there are formal terms in place to determine the amount of the benefit, or the amount of the benefit has been determined before the time of completion of the annual report. Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Share-based payments

Share-based payments include:

- Options and shares contributed to employee Share Trusts pre-IPO and granted concurrently to employees.

- Options from pre-IPO employee Share Trust contribution granted to new employees as part of their employment package.

- Performance-based Options.

- Bonus Deferral Rights ("BDR") which includes both B&B BDRs and Fund BDRs.

- Fund Appreciation Rights.

- Share Awards.

The cost of the options and rights is measured by reference to the fair value at the date granted. The cost is recognised as an expense, together with a corresponding increase in an equity reserve over the period in which certain vesting conditions are fulfilled, ending on the date on which the relevant employee becomes fully entitled to the award.

The fair value of options at grant date is determined using an option pricing model with assumptions appropriate to each award at the time of grant. The fair value of BDRs, Share Awards and Fund Appreciation Rights at grant date is calculated with reference to the actual dollar value of bonus allocated from the bonus pool to the individual for the service provided in the previous year.

At each balance sheet date, the Group revises its estimate of the number of options and rights that are expected to become exercisable. The cost recognised each period takes into account the most recent estimate. Upon the exercise of options and rights, the balance of the equity reserve (share-based payments reserve) relating to those options is transferred to contributed equity.

(AB) DERIVATIVE FINANCIAL INSTRUMENTS

Forward exchange contracts

Babcock & Brown enters into forward exchange contracts where it agrees to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contracts with anticipated future cash flows from sales and purchases in foreign currencies, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 12 months.

Forward exchange contracts are recognised at fair value at the date the contract is entered into. Any gains or losses arising from changes in the fair value of exchange contracts are recorded through the Income Statement in the period they occur except those relating to cashflow hedges that are recorded in equity and included in the measurement of the sale or purchase when it occurs.

Interest rate swaps

Babcock & Brown enters into interest rate swap agreements that are used to hedge short-term corporate borrowings or, where specifically designated, to hedge project debt for certain real estate and infrastructure transactions. The interest rate swaps used for short-term borrowings convert the variable interest rate to medium-term fixed interest rates. The interest rate swaps specifically designated as hedges of project debt finance also convert variable interest rate debt to fixed interest rates. The swaps are entered into with the objective of reducing the risk of rising interest rates.

Interest rate swaps used to hedge general short term borrowings are carried at fair value, with movements in fair value recorded in the Income Statement. Interest rate swaps with a positive fair value are included as a component of Other Assets. Interest rate swaps with a negative fair value are included as a component of Other Liabilities.

Hedges of Net Investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

(AC) earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members of the parent, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take 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 assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(AD) GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the Income Statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the construction of wind and hydro assets are included in deferred income within non-current liabilities and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(AE) BORROWING COSTS

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(AF) ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLICABLE

As at the date of this financial report the following accounting standards have been issued, which will be applicable to the Group, but were not operative and as a consequence were not adopted in the preparation of the financial statements:

Accounting Standard	*Name*	*Issue Date*	*Operative Date*
AASB 8	Operating Segments	February 2007	1 January 2009
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8	February 2007	1 January 2009
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123	June 2007	1 January 2009
AASB 2007-8	Amendments to Australian Accounting Standards arising from AASB 101	September 2007	1 January 2009
AASB 2008-1	Amendments to Australian Accounting Standards – share based payments: vesting conditions and cancellations	February 2008	1 January 2009
AASB 2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation	March 2008	1 January 2009

If these accounting standards, and others which are not applicable to the Group, had been adopted, we do not believe that there would have been a material impact to either the Income Statements for year ended 31 December 2007 or Balance Sheets as at 31 December 2007.

The Group has early adopted the amendments to Australian Accounting Standards as set out in AASB 2007-4 "Amendments to Australian Accounting Standards arising from ED151 and Other Amendments (AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 and 1038)".

(AG) CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGEMENTS

The preparation of the financial report in accordance with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the financial report such as:

- fair value of financial instruments
- acquisitions and disposals of controlled entities, joint ventures and associates, and held for sale investments
- ability to realise deferred tax
- goodwill impairment
- impairment of non financial assets other than goodwill

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported.

2. Revenues and expenses – (source 2007 audited financial statements)

	Consolidated	
	2007	*2006*
	AUD$'000	*AUD$'000*
Profit before income tax expense includes the specific revenues and expenses whose disclosure is relevant in explaining the performance of the entity:		
(A) REVENUES		
Fee income	952,283	764,171
Asset management income	792,146	540,763
Distributions and dividends	51,794	14,968
Interest income	223,118	100,896
Total Revenue	2,019,341	1,420,798
(B) OTHER INCOME		
Net gain from sales of assets	766,099	452,460
Fair value movement on held for trading financial assets	(114)	4,661
Net gain on disposal of available for sale investments	96,140	43,768
Fair value movement on investment property	100,631	9,148
Net exchange gains/(losses) on foreign exchange and interest rate hedges	74,726	10,777
Other income	82,018	71,266
Total Other Income	1,119,500	592,080
(C) EXPENSES (EXCLUDING FINANCE COSTS AND BONUS EXPENSE)		
Salaries and employee costs	302,098	218,671
Professional fees	41,027	27,511
Depreciation and amortisation	95,848	99,067
Occupancy	57,334	32,062
Asset management expense	535,070	289,666
Transaction and promotion	256,917	179,500
Travel	44,075	33,170
Net exchange loss/(gain) on foreign exchange and interest rate hedges	–	–
Other	35,700	20,381
Total Expenses (excluding Finance Costs and Bonus Expense)	1,368,069	900,028
(D) OTHER DISCLOSURE INFORMATION		
Finance cost	662,511	361,799
Depreciation and amortisation		
Investment related assets	77,969	90,402
Property and equipment	11,140	8,665
Management fee rights	4,324	–
Other intangible assets	2,415	–
Total Depreciation and Amortisation Expense	95,848	99,067
Foreign exchange (gain)/loss – realised	(75,662)	5,065
Foreign exchange (gain)/loss – unrealised	1,386	(9,824)
Realised and unrealised (gain)/loss on foreign exchange contracts	9,064	(10,362)
Realised loss/(gain) on interest rate derivatives	(9,514)	4,344
Total realised and unrealised (gain)/loss on foreign exchange and interest rate hedges	(74,726)	(10,777)
Total operating lease rental-minimum lease payments	35,641	18,895
Total share based payments	123,533	71,307
Total superannuation payments	10,673	7,005
Impairment of loans and receivables	47,384	13,019
Impairment of equity accounted investments	37,848	3,436
Impairment of held to maturity financial assets	26,627	–
Impairment of available for sale investments	–	1,157
Total interest revenue on impaired financial assets	6,053	2,553
(Gain)/loss arising on derivatives in a designated fair value hedge accounting relationship	11,037	10,362
Fair value (gains)/losses on interest rate swaps designated as cashflow hedges transferred from equity	(9,514)	4,344

3. Other information

Corporate structure

Babcock & Brown's shares are listed on the Australian Securities Exchange (ASX Code: BNB).

Prior to the public listing, Babcock & Brown Holdings Inc. ("BBH"), a United States corporation and the parent entity of Babcock & Brown immediately prior to the public listing, undertook an internal restructure to establish the listed and ultimate parent entity, the Company, and its direct subsidiary, BBIPL, above BBH and to include and exclude certain entities from the Group. The Shareholders of BBH received a 29 per cent. ownership interest in BBIPL resulting in additional minority interests in the consolidated financial statements of the Company. The percentage ownership of those Shareholders (or their associated entities) in BBIPL as at 31 December 2007 was approximately 16.84 per cent.

Nature of operations and principal activities

The principal activities during the period of the Group were:

- Creation, syndication and management of investment products for itself, as a principal, and its investor clients.
- Management of specialised listed and unlisted funds.
- Adviser and arranger of sophisticated leasing, project financing and structured finance transactions.
- Acting as a private placement agent for debt and equity funding of such transactions.
- Financial adviser on acquisitions and restructurings.

There have been no significant changes in the nature of those activities during the period.

Results from operations

Profit from ordinary activities after tax attributable to Shareholders for the year ended 31 December 2007 was $525.1 million (2006: $308.6 million).

Profit for the year was determined after deducting income tax expense of $148.4 million, bonus expenses of $573.4 million, and net profit attributable to minority interests of $114.2 million.

Basic and diluted earnings per share were 197.4 cents per share and 172.0 cents per share respectively.

Dividends

A final 50 per cent. franked dividend for the 2006 Financial Year of 21.0 cents per share amounting to $56.4 million was paid on 11 April 2007. An interim dividend for the 2007 Financial Year of 21.4 cents per share, franked to 50 per cent., and amounting to $62.0 million was paid on 3 October 2007.

A final 50 per cent. franked dividend for the 2007 Financial Year of 33.0 cents per share amounting to $97.0 million, is to be paid on 9 April 2008.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year ended on 31 December 2007, other than as follows:

- On 16 February 2007 Babcock & Brown announced the expansion of its revolving syndicated corporate debt facility from $1.32 billion to $2.35 billion.

- On 28 February 2007 Babcock & Brown acquired control of BNP Residential Properties Inc, now re-branded as Babcock & Brown Residential, paying $438 million to acquire 100 per cent. of the shares. The total transaction size after assumption of debt was $1,017 million.
- On 9 March 2007 the Company raised $396 million to acquire BBIPL Class B shares released from escrow.
- On 7 June 2007 GPT and Babcock & Brown announced a number of changes to the GPT Joint Venture including the establishment of an agreed investment term of 5 years from July 2007.
- On 17 August 2007 the Alinta scheme received final court approval and the consortium of Babcock & Brown and certain of its listed funds together with Singapore Power acquired Alinta. As a consequence of this acquisition Babcock & Brown's funds under management significantly increased.
- On 27 September 2007 Babcock & Brown announced the listing of Babcock & Brown Air, Babcock & Brown's first listed fund in North America.
- On 27 November 2007 Babcock & Brown announced the financial close of Royal Children's Hospital in Melbourne. On 27 November 2007 Babcock & Brown announced that Standard & Poor's Ratings Services had assigned a BBB/ Stable/A-3 counterparty credit rating to BBIPL.

Significant events after the balance date

The directors declared a final dividend of 33C per share, 50 per cent. franked on 21 February 2008. The total amount of the dividend is $97.0 million and it has not been provided for in the financial statements.

Babcock & Brown has made an on-market offer for the ordinary share capital of Babcock & Brown Environmental Investments Limited ("BEI"). As at 21 April 2008, Babcock & Brown and its associates had received acceptances of 97.88% of the ordinary share capital of BEl and as the applicable thresholds had been reached, compulsory acquisition of the outstanding BEl shares will proceed in accordance with the Corporations Act.

Subsequent to year end the market value of a number of listed securities which Babcock & Brown equity accounts has fallen. The market value of such securities based on the holding as at 31 December 2007, was approximately $830 million as at 31 March 2008. These securities were used as collateral against margin loans of $631 million as at 31 December 2007. As announced to the ASX on 10 March 2008, Babcock & Brown has retired more than $250 million of debt and refinanced the remaining debt with a term facility. The new financing facility contains no market based covenants, no margin call obligations and no obligations to post collateral based on the prevailing market price of securities in Babcock & Brown managed funds.

As announced on 10 March 2008, Babcock & Brown has no intention or requirement to dispose of any interest in its managed funds. Babcock & Brown accounts for its investment in such funds under the equity method, in accordance with accounting standards and the fall in market value subsequent to 31 December 2007 did not materially impact the carrying value of such funds in Babcock & Brown's balance sheet as at 31 December 2007.

On 3 March 2008, Babcock & Brown announced that it had settled an outstanding issue with the US Internal Revenue Service ("IRS") in relation to advisory business carried out by Babcock & Brown during 1993 to 1999, which was previously listed as a contingent liability. The settlement was below the amount provided in respect of this matter as at 31 December 2007.

On 27 March 2008, Babcock & Brown announced that 25 banks formally committed to participate in the expansion of the evergreen corporate debt facility to $2.8 billion and approved the rollover of the facility to 2011. In addition Babcock & Brown received approval to materially lower the market capitalisation review threshold to $2.5 billion.

On 27 March 2008, the Company announced a capital raising of $220 million through the placement of 16.12 million shares at a fixed price of $13.65 per share, expected to be completed around 2 April 2008. As a consequence of share issue BBL's ownership in BBIPL increased from 83.1 per cent. to 83.9 per cent.

On 27 March 2008, the Company announced that it would issue fully vested share awards to employees totalling approximately $150 million as part of the settlement of the 2007 bonus to employees. The issue of these share awards will be accounted for as a share based payment in the 2008 consolidated financial statements. If the grant of share awards had occurred at 31 December 2007, the impact on the consolidated financial statements would have been to increase share based payments reserve by $150 million and reduce accrued liabilities by $150 million.

On 18 April 2008, Babcock & Brown announced the acquisition of 16,718,422 shares at a price of $12.82 per share by the Babcock & Brown Employee Share Trusts (the Trusts). Of the shares acquired by the Trusts, 7.8 million shares represent an effective purchase from employee selling at a total cost of $100 million. The balance of shares acquired by the Trusts of 8,918,422 represent additional new shares issued in Babcock & Brown Limited at $12.82 shares. Through the employee sale process, the number of ordinary shares on issue in Babcock & Brown Limited expanded by 9,329,117 as a result of the transfer to Babcock & Brown of B Class redeemable preference shares in BBIPL by US based executives of the Babcock & Brown Group and the consequent issue of new shares, as foreshadowed in Babcock & Brown's IPO prospectus dated 20 September 2004. Following this event, BBL's percentage of registered shareholdings in BBIPL became approximately 87 per cent.

On 15 May 2008, following the issue of BBL shares in connection with the redemption by certain former Babcock & Brown Group employees of shares in BBIPL, the BBL percentage of registered shareholdings in BBIPL became approximately 87.77 per cent.

Other than the matters above, there have been no significant events or transactions that have arisen since 31 December 2007 which would significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity.

Future developments and results

In the opinion of the Directors, disclosure of any further information on future developments and results than is already disclosed in this report or the financial statements would be unreasonably prejudicial to the interests of the Group.

PART V

SUMMARY OF THE TERMS AND CONDITIONS OF THE ACQUISITION

1. Share Purchase Agreement

A Share Purchase Agreement dated 19 May entered into between BBIH (1) and the Company (2) pursuant to the terms of which the Company has agreed to acquire the issued A share capital of IGL, AEL Holdings and ALH Holdings.

Under the terms of the acquisition the Company will pay the following consideration to Babcock & Brown:

(a) initial cash consideration of £14.0 million;

(b) 8,000,000 Ordinary Shares issued credited as fully paid; and

(c) up to £19.0 million in cash as additional consideration payable dependent on the number of schemes that reach financial close and the gross profit achieved over the next 3.5 years from the LIFT businesses acquired.

The agreement is conditional upon the approval by the shareholders of the Company of Resolution 1 set out in the notice of General Meeting and none of the Strategic Partnering Agreements or the associated agreements relating to the LIFTCos having been terminated or any notice to terminate having been received in relation to such agreements.

BBIH has given commercial warranties to the Company relating to the shares to be acquired and the business and financial condition of the LIFTCos together with a tax covenant. The warranties are subject to normal commercial limitations on liability and expire on 30 June 2010 (with the exception of the tax warranties and tax covenant which expire seven years after completion). The Company has also undertaken not to dispose of its "A" shares in IGL, AEL Holdings and ALH Holdings during the 3.5 year period referred to in paragraph (c) above (or the date on which the maximum additional consideration is paid, if earlier).

Under the terms of the Share Purchase Agreement the Company has given limited warranties to BBIH relating to matters such as capacity and authority to enter into the transaction contemplated.

The Share Purchase Agreement is governed by English law.

2. Shareholders Agreements and Articles of Association

Shareholders Agreements to be entered into on completion of the Acquisition between the Company (1) and each of BBIH (in relation to IGL and ALH Holdings) and BBPP (in relation to AEL Holdings) (2) and articles of association of each of IGL, AEL Holdings and ALH Holdings.

Each of the relevant Shareholders Agreements and articles of association are in substantially the same form and regulate the rights and obligations of the holders of the A shares and the B shares in IGL, AEL Holdings and ALH Holdings.

Under the terms of the Shareholders Agreements the holders of the A shares are entitled to exercise day to day control of the operation and management of the relevant companies which control the private sector investment in the share capital of each of BBG Lift, BHH Lift, Wolverhampton and Walsall Lift, Oxford Lift, Bristol Lift and Dudley LIFT.

In the case of Oxford Lift and Bristol Lift the private sector investment is held in ISWL, a company jointly owned with Sapphire Primary Care Developments Limited and Peterlin Limited in which the Company will have a 46.0 per cent. interest and in the case of the Dudley LIFT this is held in IML, a company jointly owned with Sapphire Primary Care Developments Limited and Assura Lift Holding Limited in which the Company will have a 47.7 per cent. interest. In the case of both IML and ISWL the Company will have a significant level of control over the underlying private sector investments in the relevant LIFTCos pursuant to its rights under shareholders agreements relating to ISWL and IML.

In the case of East London Lift the private sector investment is held in ELLIL, a company jointly owned, controlled and managed with GSL in which the Company will have a 50 per cent. interest. GSL also has a 17 per cent. interest in LHIL, the company which controls the private sector investment in BBG Lift, BHH Lift and Wolverhampton and Walsall Lift.

The A shares will also entitle the Company, subject to the terms of the relevant Strategic Partnering Agreements and any relevant service level agreements, to deliver certain development and other advisory services in relation to the development, redevelopment and refurbishment of health and social care related infrastructure projects for each of the relevant LIFTCos.

The B shares will entitle Babcock & Brown (or associates) to retain the underlying investments in the completed projects undertaken for the LIFTCos to date, together with the right, subject to the terms of the relevant Strategic Partnering Agreements to participate in the investment in further projects developed for the LIFTCos. The consent of the B shareholders is required in relation to any matters relating to the management and operation of the IGL, AEL Holdings and/or ALH Holdings or the exercise of any rights relating to the private sector investment in the share capital of the LIFTCos which is likely to have an effect upon the rights attaching to the B shares.

The B shares are entitled by way of dividend or on a winding up of the relevant company to all of the income and assets of such company to the extent relating to or derived from any investment by the relevant company in projects developed for the LIFTCos. The A shares are entitled to all other income and assets arising in the relevant companies.

The A shareholder is entitled to appoint 3 directors to the board of directors of IGL and each of AEL Holdings and ALH Holdings and the B shareholder is entitled to appoint 2 directors. The Shareholders Agreements also provide that the Company will control the appointment of the majority of the directors appointed to each of the LIFTCos by the private sector investors (other than in relation to East London Lift where the A and B shareholder will each be entitled to appoint one director).

The unanimous approval of the shareholders is required in relation to various matters including:

- any alteration to the relevant company's share capital;
- any alteration to the relevant company's articles of association;
- any change to the relevant company's accounting policies and the approval of accounts; and
- the commencement or settlement of litigation by the relevant company.

In the event of deadlock on any matter the Shareholders Agreements provide for consultation between the shareholders followed by mediation in the event of continuing deadlock.

Any shareholder that has suffered an insolvency event or committed a material breach of the terms of the Shareholders Agreement is required to offer its shares to the other shareholders at a value to be agreed or in the absence of agreement at an independently determined market value.

Any shareholder wanting to transfer its shares to a third party must first offer its shares to the other shareholders and may in any event only transfer its shares to third parties to which the other shareholder consents (such consent not to be unreasonably withheld).

The Shareholders Agreements are governed by English law.

3. Financial Advisory and Investment Agreement

A Financial Advisory and Investment Agreement to be entered into on completion of the Acquisition between Babcock & Brown UK (1) and the Company (2).

Under the terms of the Financial Advisory and Investment Agreement the Company will agree to use its reasonable endeavours to appoint Babcock & Brown UK in relation to the provision of debt advisory and arrangement services in relation to projects developed by the relevant LIFTCos.

The Company will also appoint Babcock & Brown UK to provide financial advisory services on an exclusive basis in relation to infrastructure projects in which Babcock & Brown UK or one of its group companies or funds is investing and otherwise on a non-exclusive basis in relation to other projects entered into by the Company and members of its group.

The Company, insofar as it is able to grant such a right, has agreed to give Babcock & Brown UK a right of first refusal in relation to investment opportunities in any projects developed by the Company outside the LIFTCos (subject to the investment rights of AHMP pursuant to the terms of the Asset Management Agreement described in paragraph 6.1.2 of Part VI).

Under the terms of the Financial Advisory and Investment Agreement, Babcock & Brown UK (or an associate) will agree to consider the provision of further funding to the Company by way of loan to enable the Company to continue to develop its business. The terms of any loans made available by Babcock & Brown UK (or an associate) would be agreed by reference to prevailing market terms.

The Financial Advisory and Investment Agreement may be terminated by Babcock & Brown UK on three months notice.

The Financial Advisory and Investment Agreement may be terminated by Ashley House on 3 months notice in relation to future projects developed by the relevant LIFTCos where BBIH (or an associate) ceases to hold a majority of the B shares relating to such LIFTCo and may otherwise be terminated by Ashley House on 3 months notice where BBIH (or an associate) holds less than 10 per cent. of the issued Ordinary Shares. The Financial Advisory and Investment Agreement is governed by English Law.

4. Relationship Agreement

A relationship agreement to be entered into on completion of the Acquisition between BBIH (1), the Company (2) and Numis (3).

Under the terms of the Relationship Agreement BBIH will agree that it will exercise its rights as a shareholder of the Company to ensure that:

(a) the Company will operate independently of BBIH;

(b) all transactions between the Company and BBIH will be at arms length and on a commercially reasonable basis; and

(c) that there will at all times be a majority of directors who are independent of BBIH.

Whilst BBIH or persons associated with it control 20 per cent. or more of the issued Ordinary Shares of the Company, the Company has agreed that BBIH will be entitled to appoint two non-executive directors to the Board (and to appoint replacements for such non-executive directors).

The Relationship Agreement will cease to apply if BBIH (or persons associated with it) cease to control 25 per cent. or more of the issued Ordinary Shares (other than Babcock & Brown's right to appoint two non executive directors which will cease to apply if Babcock & Brown's interest is reduced below 20 per cent. of the Company's issued share capital).

The Relationship Agreement is governed by English law.

5. Lock-in Agreement

A lock-in agreement to be entered into on completion of the Acquisition between BBIH (1), the Company (2) and Numis (3).

Under the terms of the lock-in agreement BBIH will agree not to deal in shares it holds in the Company for a period of 12 months following completion and thereafter will agree to orderly market arrangements in relation to shares it holds in the Company for the following 12 months. Numis will release BBIH from such obligations to the extent it is required in order to reduce BBIH's interest to between 20 and 30 per cent. as further detailed in paragraph 4(i) of Part I of this document.

The lock-in agreement is governed by English law.

PART VI

ADDITIONAL INFORMATION

1. Responsibility

1.1 The Directors whose names appear on page 3 of this document accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Proposed Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and there is no omission likely to affect the import of such information.

1.2 The Babcock & Brown Directors, as defined on page 3 of this document, accept responsibility for the information contained in this document relating to Babcock & Brown. To the best of the knowledge and belief of the Babcock & Brown Directors, who have taken all reasonable care to ensure such is the case, the information contained in this document in relation to Babcock & Brown is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company

2.1 The principal legislation under which the Company operates is the Act and regulations made thereunder. The Company is subject to the City Code.

2.2 The Company's registered office and its principal place of business is located at The Priory, Stomp Road, Burnham, Buckinghamshire SL1 7LW.

2.3 The liability of the members of the Company is limited.

3. Share Capital

3.1 The authorised and issued share capital of the Company at the date of this document is as follows:

	Authorised		*Issued*	
	Number	*£*	*Number*	*£*
Ordinary shares of 1p each	51,000,000	510,000	27,544,379	275,444

3.2 Immediately following the Acquisition, the authorised and issued share capital of the Company will be as follows:

	Authorised		*Issued*	
	Number	*£*	*Number*	*£*
Ordinary shares of 1p each	67,000,000	670,000	43,424,379	434,243

3.3 On Admission, the New Ordinary Shares will rank *pari passu* in all respects with the Existing Ordinary Shares.

3.4 Changes in the share capital of the Company preceding the date of this document were as follows:

3.4.1 The Company was incorporated with a share capital of £1,000 divided into 1,000 ordinary shares of £1 each.

3.4.2 By a resolution of the Company passed on 31 March 1999 the issued share capital comprising 300 ordinary shares of £1 each was subdivided into 23,800 A ordinary shares of 1 penny each and 6,200 B ordinary shares of 1 penny each.

3.4.3 By a resolution of the Company passed on 16 August 2000, the following changes were effected in respect of share capital of the Company:

(a) the authorised share capital of the Company was increased from £1,000 to £350,000 with the newly created shares having the rights set out in the new articles of association of the Company also adopted on 16 August 2000;

(b) the issued 70,000 A Ordinary Shares of 1 penny each and the 30,000 B Ordinary Shares of 1 penny each were converted into ordinary shares of 1 penny each;

3.4.4 On 7 September 2004 the Company and AHMP entered into a stapled share structure between the share capitals of the Company and AHMP. Such structure was de-stapled by a shareholders resolution on 11 January 2007 so that the rights attaching to the Shares pursuant to the Articles are independent of the rights attaching to the shares in AHMP.

3.4.5 By a resolution of the Company passed on 11 January 2007 the authorised share capital of the Company was increased from £350,000 to £510,000 with the newly created shares having the rights set out in the articles of association also adopted on 11 January 2007.

3.4.6 On the date of this document, the Company had outstanding options to subscribe for 3,645,000 Shares. The Company has not entered into a formal share option scheme and options are currently issued at the discretion of the Company.

3.4.7 On the date of this document, the Company had outstanding warrants to subscribe for 8,870,000 Shares, including the Warrant over 7,880,000 Shares which will be exercised as part of the Acquisition.

4. Interests and Dealings

4.1 ***Directors and Proposed Directors interests***

The interests of the Directors and the Proposed Directors and their immediate families and of persons connected with the Directors and the Proposed Directors (within the meaning of sections 252 and 253 of the Companies Act 2006) in the Shares, as at the date of this document (which fall to be notified to the Company pursuant to sections 182 to 187 of the Companies Act 2006) are as follows:

	Pre Acquisition			*Post Acquisition*		
	Number of Ordinary Shares	*Per cent.*	*Number of Ordinary Shares under Option*	*Number of Ordinary Shares*	*Per cent.*	*Number of Ordinary Shares under Option*
Stephen Minion	3,774,825	13.7	630,000	3,774,825	8.7	630,000
Gail Mosley	2,635,518	9.6	270,000	2,635,518	6.1	270,000
Jonathan Holmes	1,099,604	4.0	630,000	1,099,604	2.5	630,000
Nigel Croxford	801,530	2.9	400,000	801,530	1.8	400,000
Bruce Walker	250,000	0.9	630,000*	250,000	0.6	630,000*
Richard Warner	166,666	0.6	320,000	166,666	0.4	320,000
William Wells	60,000	0.2	100,000	60,000	0.1	100,000
Andrew Gibson	50,000	0.2	200,000	50,000	0.1	200,000
John Coghlan	–	–	50,000	–	–	50,000
Jake Arnold-Forster	–	–	50,000	–	–	50,000

*330,000 of which are warrants

4.2 ***Directors and Proposed Directors dealings***

The Directors (and members of their respective immediate families or related trustees) set out below have dealt for value in the relevant securities of the Company during the last 12 months, from the date of this document:

Director	*Date*	*Transaction*	*Number of Ordinary Shares*	*Price (p)*
Andrew Gibson	28 January 2008	Buy	25,000	130
Stephen Minion	17 December 2007	Buy	30,000	131
Sir William Wells	25 June 2007	Buy	60,000	164

4.3 There is no agreement, arrangement or understanding that exists between Babcock & Brown and any of the Directors, Proposed Directors, or recent Directors, Shareholders or recent Shareholders having any connection with, or dependence upon, the Proposals.

4.4 Save as disclosed or referred to in Part VI of this document:

(a) no Director or Proposed Director (nor any member of their respective immediate families or related trustees) nor Babcock & Brown nor any person connected with any of them (within the meaning of sections 252 and 253 of the Companies Act 2006) is interested in any relevant securities of the Company;

(b) neither the Company nor any Director has any interest in the relevant securities of Babcock & Brown;

(c) no Director (nor any member of their respective immediate families or related trustees) nor any Babcock & Brown Director (nor any member of their respective immediate families or related trustees) nor Babcock & Brown nor any person connected with any of them (within the meaning of sections 252 and 253 of the Companies Act 2006) has dealt for value in any relevant securities of the Company during the last 12 months, from the date of this document;

(d) neither the Company nor Babcock & Brown has any arrangement with any other person in relation to relevant securities;

(e) the Company has no interests, rights to subscribe or short positions in Babcock & Brown;

(f) the Directors have no interests, rights to subscribe or short positions in Babcock & Brown;

(g) the Babcock & Brown Directors have no interests, rights to subscribe or short positions in the Company;

(h) Babcock & Brown and parties acting in concert with Babcock & Brown have no interests, rights to subscribe or short positions in the Company;

(i) the Directors or the Proposed Directors have no interests, rights to subscribe or short positions in the Company;

(j) no associate of the Company has any interests, rights to subscribe or short positions in the Company;

(k) the Company has no interests, rights to subscribe or short positions in any pension funds;

(l) no pension fund of the Company or of any associate of the Company has any interests, rights to subscribe or short positions in the Company;

(m) no employee benefit trust of the Company has any interests, rights to subscribe or short positions in the Company;

(n) no employee benefit trust of any associate of the Company has any interests, rights to subscribe or short positions in the Company;

(o) no connected adviser of the Company has any interests, rights to subscribe or short positions in the Company (except for an exempt principal trader or exempt fund manager);

(p) no connected advisers of an associate of the Company or a person acting in concert with the Company have any interests, rights to subscribe or short positions in the Company;

(q) no person controlling, controlled by or under the same control as a connected adviser of an associate of the Company or a person acting in concert with the Company (except for an exempt principal trader or an exempt fund manager) has any interests, rights to subscribe or short positions in the Company; and

(r) the Company, parties acting in concert with the Company, Babcock & Brown and parties acting in concert with Babcock & Brown have not borrowed or lent any Ordinary Shares.

For the purposes of this paragraph 4.4, "associate" has the meaning ascribed to it in category 1 of the definition of associate in the City Code. "Connected adviser" also has the meaning ascribed to it in the City Code.

4.5 No loan or guarantee has been granted or provided by the Company to any Director or any person connected with them.

4.6 Save as disclosed in this Part VI of this document no agreement, arrangement or understanding (including any compensation arrangement) exists between Babcock & Brown or any person acting in concert with it and any of the Directors, Proposed Directors, recent Directors, Shareholders or recent Shareholders of the Company, or the Company's nominated adviser or any person interested or recently interested in Shares of the Company, having any connection with or dependence upon the Proposals.

4.7 Save as disclosed in Part I of this document no interests in securities, acquired in conjunction with the Proposals will be transferred to any other persons.

4.8 Save as disclosed in this document none of the Directors or Proposed Directors has or has had any interest in transactions effected by the Company since its incorporation which are or were unusual in their nature or conditions or which are or were significant to the business of the Company.

4.9 Save as disclosed in paragraph 4.1, the Company is only aware of the following persons who, at the date of this document and following the Proposals, directly or indirectly, jointly or severally, hold or will hold 3 per cent. or more of the ordinary share capital of the Company or exercise or could exercise control over the Company:

	Pre Acquisition		*Post Acquisition*	
	Ordinary Shares	*Per cent.*	*Ordinary Shares*	*Per cent.*
Babcock & Brown	–	–	15,880,000	36.6
BlackRock Investment Management	2,557,530	9.3	2,557,530	5.9
Guinness Peat Group	2,190,338	8.0	2,190,338	5.0
Walker Crips Stockbrokers	1,802,600	6.5	1,802,600	4.2
Aviva plc	1,487,589	5.4	1,487,589	3.4
Ludgate 181 (Jersey) Ltd	849,998	3.1	849,998	2.0

4.10 Save as disclosed above, the Company is not aware of any person who, immediately following the Proposals will, directly or indirectly, be interested in 3 per cent. or more of the capital of the Company, or who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

5. Service Contracts

5.1 Particulars of the service contracts of the Directors and the Proposed Directors are set out below:

5.1.1 A service agreement dated 31 July 2000 between the Company (1) and Stephen Minion (2) pursuant to the terms of which Mr Minion was employed as an executive director. Under the terms of the service agreement Mr Minion is paid an annual salary of £142,500 and is entitled to 25 days holiday a year. The service agreement is terminable by either party on 3 months notice and contains restrictive covenants that would apply for a period of

12 months from the termination of the agreement. Mr Minion was paid a discretionary bonus of £36,000 in 2007.

5.1.2 A service agreement dated 31 July 2000 between the Company (1) and Jonathan Holmes (2) pursuant to the terms of which Mr Holmes was employed as an executive director. Under the terms of the service agreement Mr Holmes is paid an annual salary of £142,500 and is entitled to 25 days holiday a year. The service agreement is terminable by either party on 3 months notice and contains restrictive covenants and non solicitation covenants that would apply for a period of 12 months from the termination of the agreement. Mr Holmes was paid a discretionary bonus of £36,000 in 2007.

5.1.3 A service agreement dated 31 July 2000 between the Company (1) and Gail Mosley (2) pursuant to the terms of which Ms Mosley was employed as an executive director. Under the terms of the service agreement Ms Mosley is paid an annual salary of £54,000 and is entitled to 15 days holiday a year. The service agreement is terminable by either party on 6 months notice and contains restrictive covenants and non solicitation covenants that would apply for a period of 12 months from the termination of the agreement. With effect from 1 January 2007 Ms Mosley's employment was reduced to 3 days a working week. Ms Mosley was paid a discretionary bonus of £15,000 in 2007.

5.1.4 A service agreement dated 1 July 2005 between the Company (1) and Bruce Walker (2) pursuant to the terms of which Mr Walker was employed as finance director. Under the terms of the service agreement Mr Walker is paid an annual salary of £12,000 as a director and is entitled to 25 days holiday a year. The service agreement is terminable by either party on 3 months notice and contains restrictive covenants that would apply for a period of 12 months from the termination of the agreement. In conjunction with Layland Walker Ltd (a company controlled by Mr Walker) Mr Walker was paid £138,054 in consultancy fees and remuneration in the year ended 30 April 2007.

5.1.5 A service agreement dated 31 July 2000 between the Company (1) and Nigel Croxford (2) pursuant to the terms of which Mr Croxford was employed as an executive director. Under the terms of the service agreement Mr Croxford is paid an annual salary of £90,000 and is entitled to 25 days holiday a year. The service agreement is terminable by either party on 3 months notice and contains restrictive covenants and non solicitation covenants that would apply for a period of 12 months from the termination of the agreement. Mr Croxford was paid a discretionary bonus of £21,000 in 2007.

5.1.6 A service agreement dated 2 April 2001 between the Company (1) and Richard Warner (2) pursuant to the terms of which Mr Warner was employed as an executive director. Under the terms of the service agreement Mr Warner is paid an annual salary of £90,000 and is entitled to 25 days holiday a year. The service agreement is terminable by either party on 3 months notice and contains restrictive covenants that would apply for a period of 12 months from the termination of the agreement. Mr Warner was paid a discretionary bonus of £21,000 in 2007.

5.1.7 A letter agreement dated 18 April 2007 between the Company (1) and Sir William Wells (2) pursuant to the terms of which Sir William was appointed as non executive director. Under the terms of the letter agreement Sir William is paid an annual salary of £32,500. The letter agreement is terminable by either party on 3 months notice and contains restrictive covenants that would apply for a period of 12 months from the termination of the agreement.

5.1.8 A letter agreement dated 28 August 2007 between the Company (1) and John Coghlan (2) pursuant to the terms of which Mr Coghlan was appointed as a non-executive director. Under the terms of the letter agreement Mr Coghlan is paid an annual salary of £20,000. The letter agreement is terminable by either party on 3 months notice and contains restrictive covenants that would apply for a period of 12 months from the termination of the agreement.

5.1.9 A letter agreement dated 20 June 2007 between the Company (1) and Jake Arnold-Foster (2) pursuant to the terms of which Mr Arnold-Forster was appointed a non-executive director. Under the terms of the letter agreement Mr Arnold-Forster is paid an annual salary of £15,000. The letter agreement is terminable by either party on 3 months notice and contains restrictive covenants and non solicitation covenants that would apply for a period of 12 months from the termination of the agreement.

5.1.10 A letter agreement dated 1 January 2006 between the Company (1) and Andrew Gibson (2) pursuant to the terms of which Mr Gibson was appointed a non-executive director. Under the terms of the letter agreement Mr Gibson is paid an annual salary of £15,000. The letter agreement is terminable by either party on 3 months notice and contains restrictive covenants that would apply for a period of 12 months from the termination of the agreement. Gibson Freake Edge partnership, of which Mr Gibson is a partner, was paid £67,000 in consultancy fees in the year to 30 April 2007.

Giles Frost and Cameron Cook are to be appointed as non-executive directors of the Company with effect from completion of the Acquisition. The appointments will be for a term of three years, and may be extended beyond this time with the agreement of the Company and the Proposed Directors. The appointments will be terminable on three month's notice by either party and otherwise in accordance with the Articles. The Company may also terminate the appointments without notice and compensation if either of the Proposed Directors accepts a position or acquires an interest in another company, without Board approval, which in the Board's reasonable opinion, is likely to give rise to a material conflict of interest with his position as Director of the Company. Mr Frost and Mr Cook will each be entitled to an annual salary of £15,000 which they have agreed to waive whilst BBIH (or members of its group) control 20 per cent. or more of the issued Ordinary Shares.

5.2 Save as disclosed in paragraph 5.1 above no new service agreements or letters of appointment have been entered into by the Company and the Directors or the Proposed Directors and no existing service agreement between the Company and any Director have been amended or replaced during the 6 months prior to 16 May 2008 (the latest practicable date of this document).

5.3 Save as disclosed in this document, there will be no variation in the total emoluments receivable by the Directors as a result of the Proposals.

6. Material Contracts

6.1 The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company within the last two years and are or may be material.

6.1.1 ***Agreement with Ludgate Investments Limited***

A letter agreement dated 12 December 2006 between the Company (1) and Ludgate Investments Limited (2), pursuant to which Ludgate Investments Limited agreed to provide corporate advisory services to the Company. This agreement related to the de-stapling circular the original Strategic Alliance with B&B and the AIM Admission. Ludgate Investments Ltd are no longer advisers to the Company. This Agreement with Ludgate Investments Limited is governed by English law.

6.1.2 ***Asset Management Agreement***

An Asset Management Agreement dated 13 December 2006 between the Company (1) and AHMP (2) pursuant to which, the Company was appointed as the asset and portfolio manager for AHMP property portfolio. The Asset Management Agreement is for an initial term of 5 years and can be terminated by either party giving 2 years notice to the other, such notice to expire at any time on or after the fifth anniversary of the date of the Asset Management Agreement. The Asset Management Agreement is also terminable, at the option of the non defaulting party, if certain specified events of default arise.

The Company has undertaken to give AHMP the right of first refusal to acquire, at market value, certain projects completed by the Company.

The Company will receive an annual fee for the provision of asset and portfolio management services equal to 1 per cent. of the value of the first £50 million of gross completed assets plus 0.6 per cent. of the value of gross completed assets in excess of £50 million. In addition the Company will receive an annual incentive fee equal to 20 per cent. of the amount by which Total

Return exceeds 10 per cent. where "Total Return" is the annual increase in share price of shares in AHMP plus the annual dividends paid to holders of shares in AHMP in each case for the relevant year. This Asset Management Agreement is governed by English law.

6.1.3 ***The Nominated Adviser Agreement***

An agreement dated 12 January 2007 between the Company (1), the Directors (2) and Numis (3) under which Numis has agreed to act as the Company's nominated adviser and broker for the purposes of the AIM Rules. The agreement is for an initial period of 12 months from the date of admission of the Company to AIM. Under the agreement the Company has agreed to pay Numis for its services a fee of £50,000 plus VAT in respect of the first 12 months of the agreement. The agreement is terminable forthwith by either the Company or Numis in certain specified circumstances and, following the expiration of the 12 month initial period, the agreement will remain in full force and effect until terminated by any party giving to the other parties not less than 90 days' prior written notice. The Nominated Adviser Agreement is governed by English law.

6.1.4 ***The Placing Agreement***

A placing agreement dated 12 January 2007 between Numis (1), the Directors (2), the Selling Shareholders (as defined therein) and the Company (4) pursuant to which Numis agreed to use its reasonable endeavors to arrange for placees to subscribe for and/or purchase Ordinary Shares. The Company agreed to pay Numis a fee of £250,000 and a commission of 4 per cent. on the Ordinary Shares placed. The Selling Shareholders also agreed to pay a commission of 4 per cent. (inclusive of stamp duty) on Ordinary Shares sold.

The placing agreement contained certain warranties given by the Company and the Directors in favour of Numis as to the accuracy of certain information and an indemnity from the Company in favour of Numis. This Placing Agreement is governed by English law.

6.1.5 ***Lock-in Agreements***

Lock-in agreements dated 12 January 2007 between the Company (1), Numis (2) and each of the Directors (3) pursuant to which each Director undertook not to: (i) dispose of, without Numis' prior written consent, any of the Shares in which he or she was interested on admission of the Company to AIM (the "AH Admission") either: (a) during the period of twelve months following such for those Directors disposing of Shares pursuant to the placing, or (b) during the period of six months following such date for those Directors who were not disposing of any of their Shares pursuant to the placing (the "Restricted Period"); and (ii) not to dispose of Shares following the expiration of the applicable Restricted Period for a further six months otherwise than through Numis (whilst it is a broker to the Company), save in certain limited circumstances including in the event of an intervening court order, a takeover offer for the Company becoming or being declared unconditional or his or her death. These Lock-in Agreements are governed by English law.

6.1.6 ***The Babcock & Brown Agreement***

An agreement dated 13 December 2006 entered into between the Company (1) and Babcock & Brown (2) pursuant to the terms of which Babcock & Brown has agreed to provide certain management consulting services to the Company in relation to the provision by it of design and build services and construction management services to various public procurement projects including certain LIFT Schemes (as more particularly described in paragraph 3 of Part I of this document).

Under the terms of the Babcock & Brown Agreement, the Company and Babcock & Brown have each entered into restrictive covenants in relation to each other's clients in the event that the agreement is terminated and have also given limited commercial warranties relating to their establishment and entry into the agreement.

The Babcock & Brown Agreement is terminable by either party on 10 business days' notice and will be terminated as part of the new arrangements being entered into in connection with the Acquisition. The Babcock & Brown Agreement is governed by English law.

6.1.7 ***The Warrant***

An agreement dated 11 January 2007 under the terms which the Company granted to Babcock & Brown UK a warrant to subscribe for 7,880,000 Shares at a subscription price of 120p per Share.

The Warrant is exercisable for a period of three years from the date of grant and will cease to be exercisable (a) six months after the Company terminates the Babcock & Brown Agreement or (b) immediately upon Babcock & Brown UK terminating the Babcock & Brown Agreement.

The Warrant has been transferred to BBIH. BBIH will exercise the Warrant in connection with the Acquisition. The Warrant is governed by English law.

6.1.8 ***The Acquisition***

The Share Purchase Agreement, the Shareholders Agreements and articles of association, the Financial Advisory and Investment Agreement, the Relationship Agreement and the Lock-in Agreement are referred to in Part V.

6.1.9 ***Numis engagement letter***

An agreement dated 12 March 2008 between the Company and Numis under which Numis has agreed to be appointed financial adviser to the Company in relation to the proposed Acquisition. Under the agreement the Company has agreed to pay Numis for its services a fee of £250,000 plus VAT. The agreement is terminable forthwith by either the Company or Numis in certain specified circumstances. This Agreement is governed by English law.

6.1.10 ***Placing Process Agreement***

A placing process agreement dated 19 May 2008 between BBIH (1), Numis (2), the Company (3) and Gail Mosley (4) pursuant to which the Company and Gail Mosley have agreed that, in the event that the placing of Ordinary Shares anticipated shortly after completion of the Acquisition proceeds, up to a minimum of 6,500,000 Ordinary Shares in respect of which BBIH (or its associates) are the registered holder (or such greater number of Ordinary Shares as is required to reduce the shareholding of BBIH and its associates to 20 per cent of the Enlarged Share Capital) will be placed in priority to any Ordinary Shares to be placed on behalf of the Company and/or Gail Mosley. Numis and the Company have also agreed that to the extent such shares are not placed shortly after completion of the Acquisition Numis will use its reasonable endeavours, on reasonable market terms, to place such Ordinary Shares subsequently. The placing process letter is governed by English law.

6.2 The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by Babcock & Brown or members of its group within the last two years and are or may be material.

6.2.1 ***Share Issue in relation to Capital Raising: Placing Agreement***

A placing agreement dated 26 March 2008, between Deutsche Bank AG (1), and Babcock & Brown (2) pursuant to which Deutsche Bank AG agreed to use all reasonable endeavours to market and procure subscriptions for ordinary shares in Babcock & Brown and assist Babcock & Brown in the conduct of the placement. Deutsche Bank AG was also appointed as Settlement Agent pursuant to the placing agreement.

The placing agreement contains certain warranties given by Babcock & Brown in favour of Deutsche Bank AG as to the accuracy of certain information including continuous disclosure and an indemnity from Babcock & Brown in favour of Deutsche Bank AG. This placing agreement is governed by New South Wales law.

Babcock & Brown issued 16,120,000 Ordinary Shares pursuant to the placing following finalization of the capital raising through the placement of ordinary shares announced to the market on 27 March 2008.

6.2.2 ***Share Issue in relation to New Issue: Placing Agreement***

A placing agreement dated 14 September 2006, between UBS AG (1), and Babcock & Brown (2) pursuant to which UBS AG agreed to use all reasonable endeavours to procure the subscription of ordinary shares in Babcock & Brown. UBS AG was also appointed as arranger and Settlement Agent pursuant to the placing agreement.

The placing agreement contains certain warranties given by Babcock & Brown in favour of UBS AG and an indemnity from Babcock & Brown in favour of UBS AG. This placing agreement is governed by New South Wales law.

Babcock & Brown issued 18,784,538 Ordinary Shares on finalisation of the company's global bookbuild announced to the market on 14 September 2006.

6.2.3 ***Share Issue in relation to Conditional Rights Transaction***

A Confirmation dated 10 March 2008 (and variation related thereto dated 9 April 2008), between Deutsche Bank AG (1), and Babcock & Brown (2) relating to an ISDA 2002 Master Swap Agreement (Multi-currency Cross-border) pursuant to which Babcock & Brown issued 14.28 million options over Babcock & Brown securities with a strike price of A$23 and an expiry date of 31 July 2010. Babcock & Brown can settle through the payment of cash or delivery of securities.

Babcock & Brown has adopted a continuous disclosure policy to ensure that it complies with its disclosure obligations under the Corporations Act 2001 (of Australia) and the Listing Rules of the Australian Securities Exchange (ASX). The main ASX disclosure requirement is set out in the ASX Listing Rule 3.1, which essentially requires the Company to immediately notify the ASX of information concerning Babcock & Brown of which it is or becomes aware and which a reasonable person would expect to have a material effect on the price or value of securities of Babcock & Brown. A copy of all notifications to the ASX during the last two years can be found on http://www.babcockbrown.com/bnb-investor-information.aspx.

7. Material changes

7.1 Save as set out in Parts I, II, III(A) and III(B) of this document there has been no material change in the financial or trading position of the Company since 30 April 2007 being the date of the last audited accounts of the Group.

7.2 Save as set out in Part I, II, IV of this document there have been no material changes in the financial or trading position of Babcock & Brown since 31 December 2007, being the date of the last audited accounts of Babcock & Brown.

8. Middle Market Quotations

The following table sets out the middle market quotations for an Ordinary Share, as derived from the AIM section of the Daily Official List of the London Stock Exchange, at the close of business on the first business day of each month since 1 November 2007 and for 16 May 2008 (being the last practicable date prior to the publication of this document):

Date	*Price per share (pence)*
16 May 2008	156.50
1 May 2008	157.00
1 April 2008	152.00
3 March 2008	153.50
1 February 2008	130.50
2 January 2008	129.50
3 December 2007	135.00
1 November 2007	147.00

9. Source of funding

Ashley House will fund the initial consideration for the Acquisition from existing cash resources, the exercise of the Warrant and by the issue of 8.0 million New Ordinary Shares. It is anticipated that the deferred consideration will be funded from cashflows.

10. General

Numis has given and has not withdrawn its written consent to the inclusion in this document of references to them in the form and context in which they appear.

11. Documents Available for Inspection

11.1 Copies of the following documents will be available for inspection at the office of Hammonds, 7 Devonshire Square, London, EC2M 4YH and at the Company's registered office during usual business hours for a period of 14 days following Admission:

- the Memorandum and Articles of Association of the Company and Babcock & Brown;
- the audited consolidated accounts of the Company as referred to in Part IV;
- the financial information on Babcock & Brown as referred to in Part IV;
- the Lord Darzi report as referred to in Part I;
- the material contracts referred to in paragraph 6 of this Part VI above (save as for the Babcock agreement referred to in paragraph 6.1.6 of this Part VI above);
- the service agreements referred to in paragraph 5 of this Part VI;
- the consent letter referred to in paragraph 10 of this Part VI above; and
- the Irrevocable Undertakings.

11.2 Copies of this Document will be available for inspection at the Company's registered office during usual business hours for a period of 1 month from the date of this Document.

APPENDIX

Details of the names of companies and partnerships of which Allan Cameron Cook and Giles Frost have been directors or partners at any time in the previous five years are set out below.

(a) (Allan) Cameron Cook

(i) Current directorships

AHBB ELL Holdings Ltd
AHBB LHIL Holdings Ltd
Bexley Bromley and Greenwich LIFT Company Limited
BBG Holdco Limited
BBG LIFT Accommodation Services Limited
Babcock & Brown Operational Health Business Investment Limited
European Healthcare Investments Limited
Integrated Health Partners Limited
Infracare (Midlands) Limited
Infracare (South West) Limited

(ii) Previous directorships

Cameron Cook has no previous directorships which require disclosure.

(b) Giles James Frost

(i) Current directorships

AHBB ELL Holdings Ltd
AHBB LHIL Holdings Ltd
Babcock & Brown Public Partnerships Limited (Guernsey)
Babcock & Brown Public Partnerships 1 S.a.r.l. (Lux)
Babcock & Brown Public Partnerships 2 S.a.r.l. (Lux)
BBPP North America S.a.r.l. (Lux)
Abingdon Limited
Babcock & Brown (Derbyshire Courts) Limited
Babcock & Brown (PPP) Limited
Babcock & Brown (Tower Hamlets Schools) Limited
Babcock & Brown PFI Holdings Limited
Babcock & Brown Properties (Abingdon) Limited
Babcock & Brown Properties (Bootle) Limited
Babcock & Brown Properties (Calderdale Schools) Limited
Babcock & Brown Properties (Derbyshire Schools Phase Two) Limited
Babcock & Brown Properties (Derbyshire Schools) Limited
Babcock & Brown Properties (H&W Courts) Limited
Babcock & Brown Properties (Norfolk) Limited
Babcock & Brown Properties (Rhyl St Asaph) Limited
Babcock & Brown Properties (St Thomas More) Limited
Babcock & Brown Properties (Strathclyde) Limited
Babcock & Brown Properties Limited
Babcock & Brown Properties No. 2 Limited
Babcock & Brown Public Partnerships GP Limited
BBG Holdco Limited
BBG LIFT Accommodation Services Limited
BBPP (Aust) Limited
BBPP Bond Limited
Bexley, Bromley and Greenwich LIFT Company Limited
Black Country STM Limited
Bootle Derby Holdings Limited
Bootle PFI Solutions 1998 (2) Limited
Calderdale Schools Limited

Derbyshire Courts (Property Co-Trustee) Limited
Derbyshire Courts Limited
Derbyshire Schools Limited
Derbyshire Schools Phase Two Limited
East London LIFT Accommodation Services Limited
East London Lift Accommodation Services No2 Limited
East London LIFT Company Limited
East London LIFT Holdco No2 Limited
East London LIFT Investments Limited
East London Schools Limited
Fieldsecond Limited
H&W Courts Limited
LIFT Healthcare Investments Limited
LIFT Investors Limited
Long Eaton School Limited
Maesteg School (Babcock & Brown) Limited
Maesteg School (Bridgend) Limited
Maesteg School Limited
Narville Limited
NW (BBP) Limited
Peak Courts Limited
PPP Senior Funding Limited
Rhyl St Asaph Limited
St Thomas More Limited
STM (H) Limited
Strathclyde Limited
Taskmore Limited
TH (11th Hour) Limited
Tower Hamlets Holdings Limited
Tower Hamlets Schools Limited
Wellesley Barracks Limited
WISP Nantgarw (Property Co-Trustee) Limited
WISP Nantgarw GP Limited
WISP Nantgarw LP Limited
WISP Newport (Property Co – Trustee) Limited
WISP Newport GP Limited
WISP Newport LP Limited
WISP Properties Limited
WISP Strategic Partnership Limited
WISP Swansea (Property Co-Trustee) Limited
WISP Swansea GP Limited
WISP Swansea LP Limited
Wymondham Limited

(ii) Previous directorships

Afteracross Limited
Healthcare Improvement Partnership (Wolverhampton City and Walsall) Limited
Infracare (Midlands) Limited
Infracare (South West) Limited
Infracare (South) Limited
Infracare Capital Limited
Infracare Group Limited
Infracare Partnering Limited
Wolverhampton City and Walsall Holdco Limited
Wolverhampton City and Walsall LIFT Accommodation Services Limited

NOTICE OF GENERAL MEETING

ASHLEY HOUSE PLC

(Incorporated in England and Wales under registered number 2563627)

Waiver of Rule 9 of the City Code on Takeovers and Mergers

Proposed Increase of Authorised Share Capital

Proposed Authority to Allot Shares

Notice of General Meeting

NOTICE IS HEREBY GIVEN that General Meeting of Ashley House (the "Company") will be held at the offices of Hammonds 7 Devonshire Square London EC2M 4YH at 10.00 a.m. on 11 June 2008 for the purpose of considering and, if thought fit passing the following resolutions, which will be proposed as ordinary resolutions in the case of Resolutions 1 and 2 (and in the case of Resolution 1 will be voted on by way of a poll vote on which only independent Shareholders are permitted to vote) and as a special resolution in the case of Resolution 3:

ORDINARY RESOLUTIONS

1. THAT the waiver granted by the Panel on Takeovers and Mergers described in the Circular of the obligation under Rule 9 of the City Code on Takeovers and Mergers that would otherwise arise on Babcock & Brown to make a general offer to the shareholders of the Company as a result of the issue to Babcock & Brown of 15,880,000 new ordinary shares of 1p each in the Company pursuant to the Proposals (as described in the Circular of which this notice forms part), resulting in Babcock & Brown having an aggregate maximum potential interest in ordinary shares in the Company carrying 36.6 per cent. of the voting rights of the Company, be and hereby is approved.

2. THAT:

   (a) the authorised share capital of the Company be increased from £510,000 to £670,000 by the creation of 16,000,000 new Ordinary Shares of 1p each ranking parri passu in all respects with the existing Ordinary Shares of 1p each;

   (b) in substitution for all existing and unexercised authorities, pursuant to section 80 of the Act (as defined in the Circular), the Directors of the Company be generally and unconditionally authorised to exercise all or any of the powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Act) in the capital of the Company up to a maximum nominal amount of £80,000 in connection with the Acquisition (as defined in the Circular) and otherwise, and generally a maximum nominal amount of £235,700, (representing approximately one half of the issued ordinary share capital of the Company which would be in issue following the allotment and issue of the 15,880,000 new ordinary shares referred to in Resolution 1), provided that this authority, shall, unless previously revoked or varied by the Company in general meeting, expire five years from the date of passing this Resolution save that the Company may before the expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors of the Company may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

SPECIAL RESOLUTION

3 THAT the Directors be, and are hereby, generally authorised to allot for cash or otherwise equity securities (as defined in section 94 of the Act) of the Company pursuant to the authority conferred by resolution 2 in the notice of meeting of which this resolution forms part, or sell relevant shares (as defined in section 94 of the Act) as if section 89 of the Act did not apply to such allotment or sale provided that this power shall be limited to the allotment of equity securities, or the sale of relevant shares, not exceeding in aggregate the nominal amount of £44,000 provided further that the authority hereby granted shall expire at the conclusion of the next Annual General Meeting after the passing of this resolution (or any adjournment thereof) save that the Directors shall be entitled to make at any time before the expiry of the power hereby conferred any offer or agreement which might require equity securities to be allotted, or relevant shares to be sold, after the expiry of such power.

By Order of the Board,
Company Secretary

Registered Office:
The Priory
Stomp Road
Burnham
Buckinghamshire
SL1 7LW

Notes:

1. A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.
2. A Form of Proxy is provided with this notice. Completion and return of such a proxy will not prevent a member from attending the Meeting and voting in person.
3. To be effective, the Form of Proxy and any power of attorney or other authority under which it is signed (or a notarially certified copy of such authority) must be deposited with the Company's registrars, Capita IRG plc, not less than 48 hours before the time appointed for the Meeting or any adjournment thereof.
4. Pursuant to regulation 41(1) of the Uncertificated Securities Regulations 2001 (2001 No. 3755), the Company has specified that only those members registered on the register of members of the Company at 6.00 p.m. on 6 June 2008 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at that time. Changes to the register of members after 6.00 p.m. on 6 June 2008 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
5. Resolution 1 will be taken on a poll of independent shareholders of the Company in compliance with the requirements of the City Code on Takeovers and Mergers.

Perivan Financial Print 211799