

Oaktree Capital Management Limited

Directors' Report and Financial Statements for the year ended 31 December 2004

Registered number

3592405



Oaktree Capital Management Limited

**Directors' Report and Financial Statements
for the year ended 31 December 2004**

Registered office

31st Floor, CityPoint
1 Ropemaker Street
London EC2Y 9AW, England

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2004

The directors present their report and the audited financial statements of the company for the year ended 31 December 2004. The Company commenced its principal activities on 4 May 1999 and became a member of IMRO (reference number 5084) on 24 June 1999. Beginning 1 December 2001, the Company is regulated by the Financial Services Authority (FSA) (reference number 189880).

Principal activity and results

Oaktree Capital Management Limited (the Company), a United Kingdom company, is a majority-owned subsidiary of Oaktree International Holdings, LLC (Holdings), which is a wholly-owned subsidiary of Oaktree Capital Management, LLC (Oaktree). Holdings and Oaktree are limited liability companies in the United States.

The principal activity of the Company is providing investment management services for Oaktree in connection with an investment partnership, in which Oaktree serves as general partner, and other separately managed accounts.

The profit after taxation for the year ended 31 December 2004 was £112,000 (£227,000 for the period ended 31 December 2003) as set out in the profit and loss account on page 6. No dividend will be paid for the period ended 31 December 2004. (2003 – Nil)

Directors

The directors who held office during the year are given below:

Mr. Howard Stanley Marks (Company Chairman)
Mr. William Richard Moores (Company Secretary)
Mr. Sheldon Michael Stone

Directors' interests

None of the directors held shares in the Company at any stage in the period from 3 July 1998 to 31 December 2004. The following directors of the Company held shares in Holdings:

	Shares held as at 31 December 2004	Shares held as at 31 December 2003
Howard Marks	542,000	583,000
Sheldon Stone	300,000	322,000

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2004

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting.

By order of the Board



WR Moores

Director

28 April 2005

**Independent auditors' report to the members of
Oaktree Capital Management Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

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

**Independent auditors' report to the members of
Oaktree Capital Management Limited**

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2004 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 April 2005

Oaktree Capital Management Limited

**Profit and Loss Account
For the Year Ended 31 December 2004**

	<i>Notes</i>	2004 £'000	2003 £'000
Turnover	2,3	4,006	3,788
Administrative expenses	5,6	<u>(3,903)</u>	<u>(3,444)</u>
Operating profit		103	344
Interest receivable		<u>87</u>	<u>47</u>
Profit on ordinary activities before taxation		190	391
Taxation on profit on ordinary activities	9	<u>(78)</u>	<u>(164)</u>
Profit for the financial year		<u>112</u>	<u>227</u>

All activities are continuing operations.

The company had no recognised gains or losses other than those disclosed in the profit above and therefore no separate statement of total recognised gains and losses has been presented.

The annexed notes on pages 9 to 15 form an integral part of these financial statements.

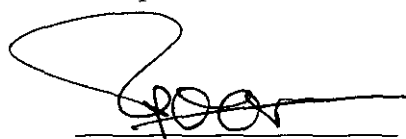
Oaktree Capital Management Limited

Balance Sheet

As at 31 December 2004

	<i>Notes</i>	2004 £'000	2003 £'000
Fixed assets			
Tangible assets	8	757	1,049
Investments		<u>21</u>	<u>13</u>
		778	1,062
Current assets			
Debtors	10	202	174
Cash at bank		<u>4,616</u>	<u>2,666</u>
		4,818	2,840
Creditors: amounts falling due within one year	11	<u>(3,451)</u>	<u>(1,869)</u>
Net current assets		<u>1,367</u>	<u>971</u>
Net assets		<u>2,145</u>	<u>2,033</u>
Capital and reserves			
Called up share capital	14	1,400	1,400
Profit and loss account	15	<u>745</u>	<u>633</u>
Total shareholders' funds (equity)		<u>2,145</u>	<u>2,033</u>

The financial statements on pages 6 to 15 were approved by the Board of Directors on 28 April 2005 and were signed on its behalf by:


WR Moores
Director

The annexed notes on pages 9 to 15 form an integral part of these financial statements.

Oaktree Capital Management Limited

Cash Flow Statement

For the Year Ended 31 December 2004

	<i>Notes</i>	2004 £'000	2003 £'000
Net cash inflow from operating activities	<i>12</i>	<u>2,145</u>	<u>858</u>
Returns on investments and servicing of finance			
Interest received		87	46
Taxation		(262)	(138)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(12)	(161)
Purchase of investment		<u>(8)</u>	<u>(11)</u>
		(20)	(172)
Financing			
Issuance of ordinary share capital		<u>-</u>	<u>-</u>
Increase in cash	<i>13</i>	<u>1,950</u>	<u>594</u>

The annexed notes on pages 9 to 15 form an integral part of these financial statements.

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2004

1. Accounting policies

The financial statements are prepared under the historical cost convention, in accordance with applicable accounting standards.

a. Turnover

Turnover is recorded as income as the related costs are incurred.

b. Taxation

The charge for UK taxation is based on the profit for the period.

c. Deferred taxation

The company has adopted the provisions of accounting standard FRS 19 – Deferred tax. As a result, deferred tax is now provided in respect of all timing differences which have originated but reversed at the balance sheet date where an event has occurred that results in an obligation to pay more or less tax in the future, except that:

1. Provision is not made in respect of property revaluation surpluses.
2. Deferred tax assets are recognised only to the extent that it is more likely than not there will be suitable profits from which the future reversal of the relevant timing differences can be deducted.

d. Tangible assets and depreciation

Depreciation of furniture and equipment is provided using the straight-line method over the estimated useful lives of the assets, which generally range from three to five years. The cost of leasehold improvements is amortised using the straight-line basis over the shorter of the respective estimated useful life or the lease term.

e. Operating leases

All leases are operating leases. The annual rentals are charged to operating profit on a straight-line basis over the terms of the leases.

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2004

2. Turnover

Turnover relates to the reimbursement of the Company's costs by Oaktree, equivalent to the Company's costs, as defined, plus 5% for the period ended 31 December 2004 and equivalent to the Company's costs plus 10% for the period ended 31 December 2003.

All turnover is derived in the UK.

3. Related party transactions

The Company's primary business is providing investment management services for Oaktree in connection with an investment partnership, in which Oaktree serves as general partner, and other separately managed accounts. For the periods ended 31 December 2004 and 2003, the Company received £4,006,000 and £3,788,000, respectively from Oaktree, which was recorded as turnover in the profit and loss account.

4. Directors' emoluments

Only one director received remuneration during the years ended 31 December 2004 and 2003. The remuneration was £595,000 and £482,000, respectively.

5. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging:

	Year ended 2004 £'000	Year ended 2003 £'000
Operating lease charges	491	491
Professional services	43	23
Auditor's remuneration - audit services	7	8
Auditor's remuneration - taxation services	26	7
Depreciation of tangible fixed assets	304	297

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2004

6. Staff costs and employee information

The average number of persons employed by the Company was twelve during the year ended 31 December 2004, and ten for the year ended 31 December 2003.

	Year ended 2004 £'000	Year ended 2003 £'000
Wages and salaries	2,462	1,818
Social security costs	305	203
Other benefit costs	36	30
	<u>2,803</u>	<u>2,051</u>

7. Operating leases

The total rentals under an operating lease for office space, charged as an expense in the profit and loss account, were £491,000 for the each of the years ended 31 December 2004 and 2003. Commitments during the year following the period of these accounts total £491,000 on the lease, which expires within two to five years.

8. Tangible assets

	Leasehold improvements £'000	Furniture & equipment £'000	Total £'000
Cost			
As at 1 January 2004	1,500	199	1,699
Additions for the year	2	10	12
As at 31 December 2004	<u>1,502</u>	<u>209</u>	<u>1,711</u>
Accumulated Depreciation			
As at 1 January 2004	550	100	650
Charges for the year	272	32	304
As at 31 December 2004	<u>822</u>	<u>132</u>	<u>954</u>
Net Book Amount			
As at 31 December 2004	680	77	757
As at 1 January 2004	<u>950</u>	<u>99</u>	<u>1,049</u>

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2004

9. Taxation on profit on ordinary activities

The charge for taxation, which is based on the profit for the period, amounted to:

	Year ended 2004 £'000	Year ended 2003 £'000
Current tax:		
Current year corporation tax at 30%	106	161
Under (over) provision in prior year	(4)	1
	<u>102</u>	<u>162</u>
Deferred tax:		
Origination and reversal of timing differences	(24)	2
Tax on profit on ordinary activities	<u>78</u>	<u>164</u>

The tax assessed for the period is different than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Year ended 2004 £'000	Year ended 2003 £'000
Profit on ordinary activities at the UK tax rate 30%	<u>57</u>	<u>117</u>
Effects of:		
Expenses not deductible for tax purposes	39	46
Accelerated capital allowances/other timing differences	10	(2)
Adjustments to tax charge in respect of previous periods	(4)	1
Current tax charge	<u>102</u>	<u>162</u>

Oaktree Capital Management Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2004**

10. Debtors

	As at 31 December 2004 £'000	As at 31 December 2003 £'000
Prepayments	123	123
VAT refund	22	24
Other	57	27
	<u>202</u>	<u>174</u>

11. Creditors: amounts falling due within one year

	As at 31 December 2004 £'000	As at 31 December 2003 £'000
Accrued compensation	1,251	1,163
Amounts owed to Oaktree	2,145	486
Taxation	5	165
Deferred taxation	—	24
Accruals	50	31
	<u>3,451</u>	<u>1,869</u>

12. Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 2004 £'000	Year ended 2003 £'000
Operating profit	103	344
Depreciation	304	297
Decrease (increase) in debtors	(28)	22
Increase in creditors	1,766	195
Net cash inflow from operating activities	<u>2,145</u>	<u>858</u>

Oaktree Capital Management Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2004**

13. Analysis of changes in cash during the period

	Year ended 2004 £'000	Year ended 2003 £'000
Balance of cash at bank as at beginning of year	2,666	2,072
Net cash inflow	<u>1,950</u>	<u>594</u>
Balance of cash at bank as at end of year	<u>4,616</u>	<u>2,666</u>

14. Called-up share capital

	As at 31 December 2004	As at 31 December 2003
Authorised ordinary shares of £1 each	<u>1,400,000</u>	<u>1,400,000</u>
Issued and fully paid	<u>1,400,000</u>	<u>1,400,000</u>

15. Reserves

	Year ended 2004 £'000	Year ended 2003 £'000
Profit and loss account as at beginning of year	633	406
Retained profit	<u>112</u>	<u>227</u>
Profit and loss account as at end of year	<u>745</u>	<u>633</u>

Oaktree Capital Management Limited

**Notes to the Financial Statements
For the Year Ended 31 December 2004**

16. Reconciliation in the movement in shareholder's funds

	Year ended 2004 £'000	Year ended 2003 £'000
Shareholder's funds as at beginning of year	2,033	1,806
Net proceeds from the issuance of ordinary share capital	—	—
Profit for the financial year	<u>112</u>	<u>227</u>
Shareholder's funds as at end of year	<u>2,145</u>	<u>2,033</u>