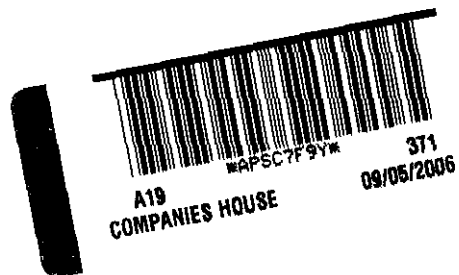


Oaktree Capital Management Limited

Directors' Report and Financial Statements for the year ended 31 December 2005

Registered number

3592405



Oaktree Capital Management Limited

Directors' Report and Financial Statements for the year ended 31 December 2005

Registered office

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

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2005

The directors present their report and the audited financial statements of the company for the year ended 31 December 2005. 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 2005 was £196,000 (£112,000 for the period ended 31 December 2004) as set out in the profit and loss account on page 6. No dividend will be paid for the period ended 31 December 2005. (2004 – 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 2005. The following directors of the Company held shares in Holdings:

	Shares held as at 31 December 2005	Shares held as at 31 December 2004
Howard Marks	1,212,000	542,000
Sheldon Stone	670,000	300,000

Oaktree Capital Management Limited
Directors' Report for the year ended 31 December 2005

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:

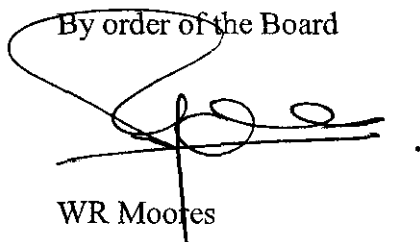
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare 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

A handwritten signature in black ink, appearing to be 'WR Moores', is written over a horizontal line. The signature is stylized with loops and a long horizontal stroke.

WR Moores
Director

27 April 2006

Independent auditor's report to the members of Oaktree Capital Management Limited

We have audited the financial statements of Oaktree Capital Management limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 other transactions is not disclosed.

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

Basis of audit opinion

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

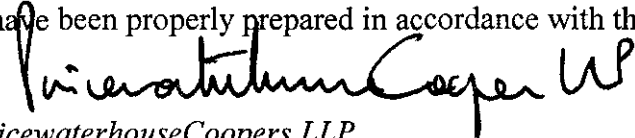
**Independent auditor's report to the members of
Oaktree Capital Management Limited**

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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 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
27 April 2006

Oaktree Capital Management Limited

Profit and Loss Account

For the Year Ended 31 December 2005

	<i>Notes</i>	2005 £'000	2004 £'000
Turnover	2,3	6,850	4,006
Administrative expenses	4,6	<u>(6,654)</u>	<u>(3,903)</u>
Operating profit		196	103
Interest receivable		<u>139</u>	<u>87</u>
Profit on ordinary activities before taxation		335	190
Taxation on profit on ordinary activities	9	<u>(139)</u>	<u>(78)</u>
Profit for the financial year		<u>196</u>	<u>112</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 14 form an integral part of these financial statements.

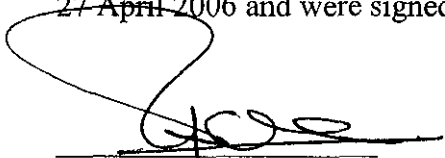
Oaktree Capital Management Limited

Balance Sheet

As at 31 December 2005

	<i>Notes</i>	2005 £'000	2004 £'000
Fixed assets			
Tangible assets	7	633	757
Investments		<u>21</u>	<u>21</u>
		654	778
Current assets			
Debtors (including £821,000 (2004: nil) falling due after one year)	10	1,760	202
Cash at bank		<u>5,638</u>	<u>4,616</u>
		7,398	4,818
Creditors: amounts falling due within one year	11	<u>(4,461)</u>	<u>(3,451)</u>
Net current assets		<u>2,937</u>	<u>1,367</u>
Net assets		<u>3,591</u>	<u>2,145</u>
Capital and reserves			
Called up share capital	14	2,650	1,400
Profit and loss account	15	<u>941</u>	<u>745</u>
Total shareholders' funds (equity)		<u>3,591</u>	<u>2,145</u>

The financial statements on pages 6 to 14 were approved by the Board of Directors on 27 April 2006 and were signed on its behalf by:


 WR Moores
 Director

The annexed notes on pages 9 to 14 form an integral part of these financial statements.

Oaktree Capital Management Limited

Cash Flow Statement

For the Year Ended 31 December 2005

	<i>Notes</i>	2005 £'000	2004 £'000
Net cash inflow from operating activities	<i>12</i>	<u>(176)</u>	<u>2,145</u>
Returns on investments and servicing of finance			
Interest received		139	87
Taxation		(12)	(262)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(179)	(12)
Purchase of investment		<u>—</u>	<u>(8)</u>
		(179)	(20)
Financing			
Issuance of ordinary share capital		<u>1,250</u>	<u>—</u>
Increase in cash	<i>13</i>	<u>1,022</u>	<u>1,950</u>

The annexed notes on pages 9 to 14 form an integral part of these financial statements.

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2005

1. Accounting policies

These financial statements are prepared on the going concern basis, historical cost convention, in accordance with the Companies Act 1985 and applicable standards. The principal accounting policies are set out below.

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.

f. Financial Instruments

The company has implemented the disclosure aspects of FRS25. This has not had any impact on the financial statements.

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2005

g. Dividends

The company has implemented the disclosure aspects of FRS21. However, as no dividends have been paid during the last two years, the financial statements have not been affected.

h. Foreign Exchange

Foreign currency transactions are entered into the accounts at year to date average exchange rates, at the month when booked, for profit and loss transactions and month end closing rates, at the month when booked, for balance sheet transactions. Exchange rates used are based on those advised by Oaktree. Gains and losses are recognised once receipts and payments have been affected.

2. Turnover

Turnover relates to the reimbursement of the Company's costs by Oaktree, equivalent to the Company's costs, as defined, plus 5%. 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 2005 and 2004, the Company received £5,247,000 and £4,006,000, respectively from Oaktree, which was recorded as turnover in the profit and loss account.

4. Profit on ordinary activities before taxation

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

	2005	2004
	£'000	£'000
Operating lease charges	794	491
Professional services	113	43
Auditor's remuneration - audit services	8	7
Auditor's remuneration - taxation services	25	26
Depreciation of tangible fixed assets	303	304

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2005

5. Directors' emoluments

Only one director received remuneration during the years ended 31 December 2005 and 2004. The remuneration was £815,000 and £595,000, respectively.

6. Staff costs and employee information

The average number of persons employed by the Company was twenty during the year ended 31 December 2005, and twelve for the year ended 31 December 2004.

	2005 £'000	2004 £'000
Wages and salaries	4,411	2,462
Social security costs	404	305
Other benefit costs	138	36
	<u>4,953</u>	<u>2,803</u>

7. Tangible assets

	Leasehold improvements £'000	Furniture & equipment £'000	Total £'000
Cost			
As at 1 January 2005	1,502	209	1,711
Additions for the year	133	46	179
As at 31 December 2005	<u>1,635</u>	<u>255</u>	<u>1,890</u>
Accumulated Depreciation			
As at 1 January 2005	822	132	954
Charges for the year	277	26	303
As at 31 December 2005	<u>1,099</u>	<u>158</u>	<u>1,257</u>
Net Book Amount			
As at 31 December 2005	536	97	633
As at 1 January 2005	<u>680</u>	<u>77</u>	<u>757</u>

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2005

8. Operating leases

The total rentals under operating leases for office space, charged as an expense in the profit and loss account, were £794,000 and £491,000 for the years ended 31 December 2005 and 2004, respectively. At 31 December 2005 and 2004 annual commitments under operating lease agreements in respect of properties, for which payments extend over a number of years were:

	2005 £'000	2004 £'000
Within one year	482	491
Within two to five years	3,760	246
After five years	9,331	—
	<u>13,573</u>	<u>13,573</u>

9. Taxation on profit on ordinary activities

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

	2005 £'000	2004 £'000
Current tax:		
Current year corporation tax at 30%	154	106
Under (over) provision in prior year	<u>(1)</u>	<u>(4)</u>
	153	102
Deferred tax:		
Origination and reversal of timing differences	<u>(14)</u>	<u>(24)</u>
Tax on profit on ordinary activities	<u>139</u>	<u>78</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:

	2005 £'000	2004 £'000
Profit on ordinary activities at the UK tax rate 30%	<u>101</u>	<u>57</u>
Effects of:		
Expenses not deductible for tax purposes	40	39
Accelerated capital allowances/other timing differences	13	10
Adjustments to tax charge in respect of previous periods	<u>(1)</u>	<u>(4)</u>
Current tax charge	<u>153</u>	<u>102</u>

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2005

10. Debtors

	As at 31 December 2005 £'000	As at 31 December 2004 £'000
Turnover receivable	396	—
Prepayments	225	123
VAT refund	244	22
Other	895	57
	<u>1,760</u>	<u>202</u>

Other debtors include £821,000 (2004: nil) falling due after more than one year. This amount relates to deposit on operating lease, payable on expiration or termination of the lease.

11. Creditors: amounts falling due within one year

	As at 31 December 2005 £'000	As at 31 December 2004 £'000
Accrued compensation	2,183	1,251
Amounts owed to Oaktree	1,886	2,145
Taxation	149	5
Deferred taxation	(14)	—
Accruals	257	50
	<u>4,461</u>	<u>3,451</u>

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

	2005 £'000	2004 £'000
Operating profit	196	103
Depreciation	303	304
Increase in debtors	(1,558)	(28)
Increase in creditors	883	1,766
Net cash inflow from operating activities	<u>(176)</u>	<u>2,145</u>

Oaktree Capital Management Limited

Notes to the Financial Statements For the Year Ended 31 December 2005

13. Analysis of changes in cash during the period

	2005	2004
	£'000	£'000
Balance of cash at bank as at beginning of year	4,616	2,666
Net cash inflow	<u>1,022</u>	<u>1,950</u>
Balance of cash at bank as at end of year	<u>5,638</u>	<u>4,616</u>

14. Called-up share capital

	As at 31 December 2005	As at 31 December 2004
Authorised, issued and fully paid ordinary shares of £1	<u>2,650,000</u>	<u>1,400,000</u>

15. Reserves

	2005	2004
	£'000	£'000
Profit and loss account as at beginning of year	745	633
Retained profit	<u>196</u>	<u>112</u>
Profit and loss account as at end of year	<u>941</u>	<u>745</u>

16. Reconciliation in the movement in shareholder's funds

	2005	2004
	£'000	£'000
Shareholder's funds as at beginning of year	2,145	2,033
Net proceeds from the issuance of ordinary share capital	1,250	—
Profit for the financial year	<u>196</u>	<u>112</u>
Shareholder's funds as at end of year	<u>3,591</u>	<u>2,145</u>

During 2005, 1,250,000 shares at £1 were issued to equity holders and transaction costs relating to this issue have not been deducted from equity.

17. Ultimate parent undertaking

The immediate parent undertaking is Oaktree International Holdings, LLC. The ultimate parent undertaking and controlling party is Oaktree Capital Management, LLC.