

For release at 7am on 27 March 08

European Equity Tranche Income Limited

ANNOUNCEMENT OF HALF-YEARLY RESULTS

The directors announce the statement of half-yearly results for the six months ended 31 December 2007 as follows. A copy of this interim statement is expected to be posted to shareholders shortly and a copy will be posted on the Company's website www.eeti.co.uk.

ABOUT THE COMPANY

European Equity Tranche Income Limited ('the Company') was incorporated in Guernsey as a closed-ended investment company on 17 March 2006 and issued its prospectus for the raising of capital on 6 April 2006 (the "Prospectus"). The Company commenced business on 26 April 2006 ("Admission") when 100,000,000 Ordinary shares of no par value ("Shares") were allotted to applicants pursuant to the initial offering of Shares at an issue price of €1 each. The Company purchased for cancellation 2,000,000 Ordinary shares in the capital of the Company on 26 July 2007. The total number of Ordinary shares in issue is now 98,000,000. The Company does not have a fixed life. Shareholders will have the opportunity to review the future of the Company after an initial period of seven years following Admission and every second year thereafter.

The Company's Investment Manager is Ocean Capital Associates LLP, a United Kingdom based investment management partnership authorised and regulated by the Financial Services Authority of the United Kingdom.

INVESTMENT OBJECTIVE AND POLICY

The Company's investment objective is to deliver stable returns to shareholders in the form of quarterly dividends and to preserve capital.

It intends to achieve this by investment in non-investment grade and equity tranche (or "first loss") positions of residential mortgage-backed securities ("RMBS") and, to a limited extent, other asset-backed securities ("ABS") in Europe. The directors intend that, once fully invested no less than 75 per cent of investments are made in RMBS and up to 25 per cent in other ABS.

DIVIDENDS

During the period, dividends totalling €0.04 per share were declared and paid. The last four dividend payments are shown below.

Declaration	Quarter Ending	Amount per Share	Paid
16 April 2007	31 March 2007	€0.020	18 May 2007
16 July 2007	30 June 2007	€0.020	10 August 2007
19 October 2007	30 September 2007	€0.020	23 November 2007
30 January 2008	31 December 2007	€0.015	29 Feb 2008

INVESTMENT PERFORMANCE

As at 31 December 2007, the net asset value of a share was €0.8291.

CHAIRMAN'S STATEMENT

As all our shareholders are aware these first six months have been a depressing time for the Company. Credit, or perhaps more accurately liquidity, remains incredibly tight. Indeed the current conditions in the debt markets are worse than I have ever seen them. In the United States there has been continuing bad news on the sub prime market and to the extent that European institutions got involved in this market they have had to report significant losses. If the only problem was the sub prime market, my judgment is that the situation would be getting close to the time when we could start to have reasonable confidence that we could scale the total problem and take the appropriate provisions. However, this is the first market crisis we have had where 'mark to market accounting' is in force. And whatever its benefits it has undoubtedly had a pro cyclical impact on financial institutions. In addition there is a lack of confidence in the rating agencies, with many securities trading well below the level their ratings would indicate, and problems in the monoline industry have worsened the situation, with financial institutions fearful that they may have to take further write downs if monolines fail. To the best of my knowledge there have been no mortgage securitizations sold to third party investors in Europe in the first quarter of this year. This is because even 'AAA' buyers are holding back because of their fear that they will have to take mark downs on their security, even with no change in the credit environment. I have little doubt that in two to three years there will be write backs amounting to many billions of dollars, as liquidity finally comes into the market and securities start to trade in sufficient volume to have some confidence in their pricing. Whether I am right or wrong about the future the present is grim. There are four main issues we have to address - credit, prepayments, the valuation of our securities and financing.

Credit

As we have regularly advised our shareholders the default rates on our investments are all within the tolerance of our models. The liquidity and credit crisis affecting U.S. banks has not translated into higher defaults rates in Europe.

Because of the situation in the property market in Spain we have had a number of questions about our Spanish investments. The performances of the four transactions issued by Banco Pastor remain sound. There have been no material changes in the performance drivers since we purchased them. These investments have low Loan to Value ratios ranging from 61% to 65%, and are second loss positions. Geographical exposure and the quality of the originator/servicer are also contributing to the robustness of these deals.

Prepayments

As you are all aware, because of a change in the law our Italian investments have suffered much higher prepayment rates than we had modelled for. As a result we took a significant write down (€15 million) on our Italian portfolio on the assumption that prepayment rates would remain at around 10% as opposed to our modelled rate of 5%. To the extent that prepayment rates on our Italian portfolio change, each increase or decrease in the prepayment rate of 1% results in a variation of around €2 million.

Valuation

Typically our investments were bought with a targeted internal rate of return of around 10%. Since the liquidity crisis hit there have been no transactions where equity residuals have been priced, although those that were shown to the market were priced at similar levels to those we have used. As a consequence we have not adjusted the internal rates of return at 31 December 2007 in the valuation models. To the extent that we had evidence that a higher internal rate of return should be used, each percentage increase would result in a mark down of about €5.5 million. This of course would make little difference to our cash flow but, as noted earlier, would result from the fair value accounting principles where everything has to be marked to market, even if no such market exists.

Financing

We currently have loans outstanding from Citibank of €36 million where we are paying 250 basis points over EURIBOR. At the end of 2008 if we have not been able to find some method of securitizing this debt, the financing remains in place for another year but the pricing increases to 500 basis points. We are currently in discussion with Citibank about amending our financing arrangements.

I would like to finish by telling you how most of our troubles are behind us, and we are striding confidently into sunlit uplands. Alas, this is not the case. The situation in debt markets is bleak and is likely to remain so for some time. Some of our shareholders have argued that we should sell some of our securities to reduce our gearing, and I am sympathetic to this argument. However, in a market where selling AAA securities is a challenge, the discount we would have to take on the sale of any of our much more lowly rated securities, even if we could get a bid which is doubtful, would be so high as to make the transaction unviable. All I can assure our shareholders is that we are and will be looking for any opportunities that do arise.

Robin Monro-Davies
Chairman

REPORT OF THE INVESTMENT MANAGER

As indicated in the estimated net asset value (“NAV”) announcement of 24 January 2008, the Company’s NAV amounted to approximately €81 million, or €0.8291 per share, as at 31 December 2007. The investment portfolio has not changed since that date and the estimated distribution of net income, based on the Board’s quarterly dividend target of €0.015 per share, is approximately €6 million for the calendar year 2008.

We expect the credit market conditions to remain very challenging for the whole of 2008. In our opinion, the financial system will continue the deleveraging process started over the summer of 2007 with further worsening of the credit performance expected in the United States for the coming months. Liquidity in the European asset-backed securities (“ABS”) market remains tight as a consequence of global credit concerns and liquidity crunch. The primary market remains shut. The rare new issues are retained by the issuers, as they use the financing window offered by the European Central Bank.

The most affected part of the ABS market will continue to be the senior tranches of securitised transactions as exceptional volatility and sizeable mark to market losses to date on these bonds have temporarily dried up the appetite of traditional buyers. In addition, the ongoing de-leveraging of collateralised debt obligations and other levered structures may contribute to a further deterioration of that supply and demand imbalance. Trading in mezzanine and subordinated tranches of European ABS has remained very scarce. To our knowledge, no equity tranche of prime continental residential mortgage-backed securities (“RMBS”) has been offered nor sold to investors and the Company has not purchased any new investments.

In Western European markets, delinquencies, defaults and loss rates have not materially increased for prime assets, including the investments held by the Company. As explained by the Chairman, this comment also extends to the Company’s four transactions originated by Banco Pastor in Spain, where the overall RMBS market seems more exposed to deteriorating performance. The evolution of prepayment rates in Europe has however proved more volatile; prepayments have risen in Italy and to a lesser extent in Portugal in recent months, while latest data indicates a clear slowdown in prepayment rates across Spanish RMBS. Market participants anticipate that the credit crisis will reduce materially the refinancing capacity of European banks and thus their appetite for new credit production, but this trend has not materialised so far in some of our key markets.

Against the dramatic share price fall and discount to NAV suffered in the first quarter of 2008, we are evaluating opportunities to maximise the cash returned to shareholders on an ongoing basis. Plans to dispose of selected assets, of the whole portfolio or of the Company itself, in the current market situation, would only further impair the share price and destroy the value of the assets on a permanent basis. As regards the Company’s funding strategy

our priority has been, and remains, to secure a stable debt funding and maintain a high dividend pay out. We are currently exploring opportunities with the Company's lender to amend the terms of the facility renewed last December, in order to give the Company additional financial flexibility. We will communicate as soon as practicable on our progress.

In the current volatile environment we remain confident that the quality of the investments, our negotiation on the debt package and the asset surveillance work will preserve the long term value of the Company.

Ocean Capital Associates LLP
Investment Manager

UNAUDITED CONSOLIDATED INCOME STATEMENT for the period ended 31 December 2007

	Notes	1 Jul 2007 to 31 Dec 2007 €	1 Jul 2006 to 31 Dec 2006 €
Operating income	2	6,656,553	3,611,495
Losses on fair value through profit and loss financial instruments		(15,105,590)	-
Realised gain on disposal of financial instruments		27,606	-
Operating expenses	3	(898,658)	(867,872)
Loan interest payable		(1,289,474)	(16,891)
		<hr/>	<hr/>
Net (loss)/profit for the period transferred to reserves		(10,609,563)	2,726,732
		<hr/>	<hr/>
Basic and diluted (losses)/ earnings per share for the period	7	(0.1079)	0.0272

In arriving at the results for the financial period, all amounts above relate to continuing operations.

There have been no gains or losses in the period that are not included in the Income Statement.

UNAUDITED CONSOLIDATED BALANCE SHEET As at 31 December 2007

	Notes	31 Dec 2007 €	30 Jun 2007 €	31 Dec 2006 €
ASSETS				
Non-current assets				
Investments designated at fair value through the				
Income Statement	9	111,528,768	129,069,538	105,406,811
Current assets				
Trade and other receivables	10	3,041,436	3,375,740	1,081,470
Cash and cash equivalents	11	3,396,130	1,757,210	3,271,071
		6,437,566	5,132,950	4,352,541
Total assets		117,966,334	134,202,488	109,759,352
EQUITY AND LIABILITIES				
Equity				
Issued share capital	12	-	-	-
Share premium		50,000,000	50,000,000	50,000,000
Retained earnings		31,257,095	47,344,025	49,458,285
		81,257,095	97,344,025	99,458,285
Current liabilities				
Bank loans and overdrafts	13	36,238,827	36,238,827	9,912,160
Trade and other payables	14	470,412	619,636	388,907
		36,709,239	36,858,463	10,301,067
Total equity and liabilities		117,966,334	134,202,488	109,759,352

The financial statements were approved by the Board of Directors on 26 March 2008

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT for the period ended 31 December 2007

	1 Jul 2007 to 31 Dec 2007	1 Jul 2006 to 31 Dec 2006
	€	€
Cash flows from operating activities		
Net (loss)/profit for the period transferred to reserves	(10,609,563)	2,726,732
Losses on fair value through profit and loss financial instruments	15,105,590	-
Realised gain on disposal of investment	(27,606)	-
Less: Accrued interest written off	(57,432)	(510,088)
Less: (Decrease) / Increase in accrued expenses	(149,224)	65,138
Add: Increase / (Decrease) in prepayments and accrued income	334,304	(473,445)
Less: Interest capitalised written back	<u>(1,221,821)</u>	<u>-</u>
Net cash inflow from operating activities	<u>3,374,248</u>	<u>1,808,337</u>
Cash flows from investing activities		
Interest received	57,432	510,088
Purchase of non-current assets	(7,354,795)	(52,551,910)
Sale of non-current assets	8,100,000	-
Capital repayments received from investments	<u>2,939,402</u>	<u>2,249,382</u>
Net cash inflow/(outflow) from investing activities	<u>3,742,039</u>	<u>(49,792,440)</u>
Cash flows from financing activities		
Redemption of share capital	(1,517,367)	-
Dividends	(3,960,000)	(1,320,000)
Bank loan	<u>-</u>	<u>9,912,160</u>
Net cash (out)/inflow from financing activities	<u>(5,477,367)</u>	<u>8,592,160</u>
Cash and cash equivalents at the beginning of the period	1,757,210	42,663,014
Increase in cash and cash equivalents	<u>1,638,920</u>	<u>(39,391,943)</u>
Cash and cash equivalents at the end of the period	<u>3,396,130</u>	<u>3,271,071</u>

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY for the period ended 31 December 2007

	Share Premium €	Accumulated Profits €	Total €
Balance at 1 July 2007	50,000,000	47,344,025	97,344,025
Net loss for the period	-	(10,609,563)	(10,609,563)
Redemption of share capital	-	(1,517,367)	(1,517,367)
Distribution to ordinary shareholders	-	(3,960,000)	(3,960,000)
Balance at 31 December 2007	50,000,000	31,257,095	81,257,095

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS As at 31 December 2007

1 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements of European Equity Tranche Income Limited, a closed - ended investment company registered in Guernsey, Channel Islands have been prepared in conformity with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, as adopted by the European Union, and the Interpretations of International Financial Reporting Standards issued by the Standing Interpretations Committee of the International Accounting Standards Board and applicable requirements of Guernsey Law.

The financial statements have been prepared on an historical cost basis except for the measurement at fair value of investments designated at fair value through the Income Statement. The accounting policies have been applied consistently by the Company in the accounting period which is from 1 July 2007 to 31 December 2007. The financial statements have been prepared in its functional currency, Euro, as this reflects the Company's primary activity of investing in Euro financial instruments. The Directors believe that IFRS's and International Financial Reporting Interpretations Committee ("IFRIC") pronouncements which are in issue but not yet operative or adopted by the Company will not have a material impact on the financial statements of the Company.

The preparation of financial statements in conformity with IFRS requires the company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Foreign currencies

Transactions in foreign currencies are translated into Euros, which is deemed to be the functional currency, at the rates of exchange ruling on the date on which the transactions occur. At the balance sheet date, foreign currency monetary items are translated into Euros at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the Income Statement in the period in which they arise. At the balance sheet date, non-monetary items which are carried at fair value denominated in foreign currency are reported using the exchange rates that existed at the date when the fair values were determined.

(c) Interest income

Interest income is accounted for on an accruals basis on cash and cash equivalents. Interest income is accrued based on the fair value of the Company's investments and their contractual terms. Interest income is accrued over the projected lives of the investments using the effective interest method as defined under International Accounting Standard 39 ("IAS 39"). Where the Company adjusts expected cash flow projections to take account of any change in underlying assumptions, such adjustments are recognised in the Income Statement by reflecting changes in a revised amortised cost value of the investment and applying the original effective interest rate to this revised amortised cost value for the purposes of calculating future income. The Company's policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, market consensus indicators and current market conditions.

Premiums and discounts associated with the purchase of investments/assets are amortised or accreted into interest income over the projected term of the investment.

(d) Fair Value of Financial instruments

Under IAS 39, the Company's investments are measured initially at cost, which is the fair value of whatever was paid to acquire them. Associated transaction costs are written off to the Income Statement. All purchases and sales of investments are recognised using trade date accounting. After initial recognition the Company's investments are measured at fair value through the Income Statement. The Company's investments are designated to this category at inception, as the Company is an investment Company whose business is investing in financial assets with a view to profiting from the yield and increase in fair value.

Investments, which principally comprise investments in residual income positions, are fair valued using financial pricing models that reflect assumptions including the Investment Manager's assessment of the nature of the investment and the collateral, security position, risk profile, historical default rates and the originator and servicer. Each of these factors involves subjective judgements and forward-looking determinations by the Investment Manager and these assumptions may not be supported by prices from observable current market data.

Where the fair value of the investment is written down due to changes in assumptions and expected cash flows, the change in the fair value is taken to the Income Statement following the reassessment of the cash flow discounted at the current market rate estimated.

Derivative financial instruments are used by the Company solely to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities and are accounted for under hedge accounting principles.

(e) Cash and Cash Equivalent

Cash and cash equivalents are carried at cost. Cash and cash equivalents are defined as cash and deposits at bank.

(f) Trade and other receivables and payables

Trade and other receivables and payables are carried at cost. Cost is considered to approximate fair value.

(g) Bank loans and associated borrowing costs

Bank loans are raised to support funding of investments. They are recognised as current liabilities as they are due for repayment within one year. Finance charges are charged to the Income Statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Interest payable on loans is also recognised in the Income Statement on an accruals basis.

(h) Taxation

The Company has been granted exemption under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 from Guernsey Income Tax, and is charged an annual fee of £600.

In June 2006 the States of Guernsey agreed that, from 1 January 2008, the standard rate of income tax on company profits will be 0%, with only a limited number of specific banking activities being taxed at 10%. This is what is referred to as the "Zero-Ten" regime. Therefore, for the foreseeable future the Company will continue to have no tax payable in Guernsey.

(i) Earnings per share

The Company calculates both basic and diluted earnings per share in accordance with IAS 33 'Earnings per share'. Under IAS 33 basic earnings per share is computed using the weighted average number of shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of shares outstanding during the period plus the dilutive effect of any instruments outstanding during the period.

(j) Segmental reporting

In the opinion of the Directors the Company has only one business segment being investment in asset backed securities (“ABS”), in particular residential mortgage backed securities (“RMBS”).

(k) Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company’s accounting policies, the Company has determined that the following judgements and estimates have the most significant effect on the amounts recognised in the financial statements.

Income recognition

The Company invests primarily in a diversified portfolio of residual income positions, being the subordinated tranches of ABS, principally RMBS. Residual income positions are typically unrated or rated below investment grade and are often referred to as the “equity” or “first loss” position of securitisation structures.

Unlike more conventional bonds and the more senior tranches of ABS (which generally hold the rights to fixed levels of income), the cash flow profile of a residual income position does not include a contractually established schedule of fixed payments divided between interest and principal. Instead the cash flows generally vary over time, and the periodic cash flows associated with a residual income position may include principal repayment as well as income payments which fluctuate over time.

A given cash payment received in respect of a residual income position represents a combination of the return on the investment and the repayment of some of the capital initially invested. As a result, the stream of expected cash flows associated with a particular residual income position may have an uneven payout profile, in that the cash payment expected in one period (and the proportion of that payment that represents principal repayment versus interest income) may vary significantly from the cash payments expected in other periods.

The Company follows a policy of accounting for such investments at fair value through profit or loss and has elected to recognise income on an effective interest rate (“EIR”) method in accordance with Paragraph 30 of IAS18 “Revenue”.

Interest income is recorded based on the original EIR, as set out in Note 1(c) above.

Further disclosures of key assumptions and key sources of estimation uncertainty are set out in Note 16 under the headings “Residual Interest Risk” and “Liquidity Risk”.

Valuation of investments

As described in Note 16 to the accounts, the market for RMBS, including residual income positions is illiquid and regular traded prices are generally not available for such investments. There is no active secondary market in residual income positions and, further, there is no industry standard agreed methodology to value residual income positions.

In accordance with the Company’s accounting policies, fair value of financial assets is based on quoted bid prices where such bids are available from a third party in a liquid market. Where quoted bid prices are unavailable, the fair value of the financial asset is estimated by reference to a valuation model that incorporates discounted cash flow techniques as required by IAS39.

The key assumptions upon which the valuation models are based are described in Note 1(e) to the accounts. Any change to assumptions surrounding the pricing models may result in different fair values being attributed to the investments.

The fair value of the Company’s investments is set out in Note 9 and a further description of the risks associated with the Company’s investments is provided in Note 16. The Company considers that it would be impractical to disclose the effects of changes to each assumption in respect of each investment valuation model.

2 OPERATING INCOME	1 Jul 2007 to 31 Dec 2007	1 Jul 2006 to 31 Dec 2006
	€	€
Interest on investments in asset backed securities	6,599,121	3,101,407
Interest from cash and cash equivalents	57,432	510,088
	<hr/> 6,656,553	<hr/> 3,611,495
	<hr/>	<hr/>
3 OPERATING EXPENSES	1 Jul 2007 to 31 Dec 2007	1 Jul 2006 to 31 Dec 2006
	€	€
Investment managers fees	589,044	615,495
Directors' remuneration	58,748	62,790
Directors expenses	2,253	2,386
Directors & Officers insurance	13,922	16,779
Audit fees	22,840	59,307
Investment transaction costs	-	152
Administration fees	42,292	21,568
Registration fees	10,593	6,813
Legal and professional fees	75,824	1,022
Other operating expenses	83,142	81,560
	<hr/> 898,658	<hr/> 867,872
	<hr/>	<hr/>

4 INVESTMENT MANAGERS FEES

Management Fee

Under the terms of the Investment Management Agreement, a management fee is payable to the Investment Manager at an annual rate of 1.25 per cent. of the lower of (i) the Net Asset Value of the Company immediately following Admission and (ii) the Net Asset Value of the Company on 31 March, 30 June, 30 September and 31 December (before deduction of accruals in respect of the management fee for the current period and any performance fee) (excluding current period income).

The management fee accrues daily and is payable quarterly in arrears.

Performance Fee

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive a performance related fee in respect of each performance period which will be paid quarterly in arrears.

A performance period will comprise each successive quarter.

The performance fee for each performance period will be an amount equal to 20 per cent. of the amount by which the Company's net income (as calculated for these purposes) after tax for the relevant period, before payment of any performance fee, exceeds an amount equal to a simple interest rate of two per cent. per quarter (the "quarterly hurdle") multiplied by the weighted average number of Ordinary Shares outstanding during the relevant period multiplied by the weighted average offer price of such Ordinary Shares subject to the Net

Asset Value of an Ordinary Share at the end of the relevant performance period being no less than the Net Asset Value of an Ordinary Share immediately following Admission.

The sum of quarterly performance fees based on the quarterly hurdle payable to the Investment Manager for any full financial period will be capped at that amount which would be payable based on 20 per cent. of the amount by which the Company's net income after tax for the relevant period (before payment of any performance fees) exceeds an amount equal to an annualised simple interest rate of eight per cent. (the "annual hurdle") multiplied by the weighted average number of Ordinary Shares outstanding during the relevant full financial period multiplied by the weighted average offer price of such Ordinary Shares.

Where the sum of quarterly performance fees paid for any financial period based on the quarterly hurdle exceeds that amount which would have been payable based on the annual hurdle, the Investment Manager shall repay to the Company any such excess.

The performance fee, if any, will be calculated on behalf of the Company by the Administrator.

Where there is a difference between the Company's net income for the relevant performance period as shown in the Company's quarterly management accounts compared to the Company's audited annual accounts, the net income for the relevant performance period as reflected in the audited accounts shall prevail. Any excess performance fee paid or any additional performance fee due in respect of any performance period attributable to any such difference will be repaid by or paid to the Investment Manager, as the case may be.

No performance fees were payable during the period.

5 STAFF COSTS

The company has no employees other than the Directors. Their expenses totalled €2,253 (2006: €2,386)

6 DIRECTORS' REMUNERATION

Unless otherwise decided by the Company by ordinary resolution, the Company shall pay to the Directors (but not alternate directors) for their services as Directors out of the funds of the Company by way of fees such sums as the Board decides (not exceeding £200,000 per annum in aggregate or such larger amount as the Company may by ordinary resolution decide). The aggregate fees will be divided among the Directors in such proportions as the Board decides or, if no decision is made, equally. Directors remuneration totalled €58,748 (2006:€62,790) in the period.

7 EARNINGS PER SHARE

The (losses)/earnings per share is based on the net loss for the period of €10,609,563 (earnings in 2006:€2,726,732) and on 98,326,087 (2006:100,000,000) shares, being the weighted average number of shares in issue during the period. There were no dilutive instruments in issue in the period.

8 DIVIDENDS

During the period, the following dividend payments were made:

Date	Amount per share	Total dividend distribution
	€	€
10 August 2007	0.02	2,000,000
23 November 2007	0.02	<u>1,960,000</u>
		<u><u>3,960,000</u></u>

9 INVESTMENTS DESIGNATED AS FAIR VALUE THROUGH THE INCOME STATEMENT

	31 Dec 2007	30 Jun 2007	31 Dec 2006
Unquoted investments in RMBS and ABS	€	€	€
Cost / value brought forward at 1 July 2007/6	129,069,538	55,104,283	55,104,283
Additions – cost	7,354,795	82,027,000	52,551,910
Disposals - cost	(8,072,394)	-	-
Capital repayments	(2,939,402)	(5,392,861)	(2,249,382)
Loss on revaluation for the period	<u>(13,883,769)</u>	<u>(2,668,884)</u>	<u>-</u>
	<u>111,528,768</u>	<u>129,069,538</u>	<u>105,406,811</u>

Income derived from these investments is based on their expected internal rate of return (IRR) over their estimated life. The IRR reflects a number of collateral performance and other assumptions, which may be adjusted over time.

The range of the weighted average floating interest rate is between 9% and 11%.

In order to hedge a foreign currency exposure in respect of an investment denominated in Sterling, the Company entered into a total return swap at the date of acquisition of the underlying investment. Accordingly there is no unrealised foreign exchange gain or loss at the period end.

10 TRADE AND OTHER RECEIVABLES	31 Dec 2007	30 Jun 2007	31 Dec 2006
	€	€	€
Prepayments	214,668	116,429	10,220
Accrued interest – Investments	2,791,334	3,241,158	1,071,250
Accrued interest – Cash	8,531	4,807	-
Withholding tax debtor	13,557	-	-
Sundry debtors	<u>13,346</u>	<u>13,346</u>	<u>-</u>
	<u>3,401,436</u>	<u>3,357,740</u>	<u>1,081,470</u>

11 CASH AT BANK	31 Dec 2007	30 Jun 2007	31 Dec 2006
	€	€	€
Bank balances	786,615	83,657	954,060
Call deposits	<u>2,609,515</u>	<u>1,673,553</u>	<u>2,317,011</u>
	<u>3,396,130</u>	<u>1,757,210</u>	<u>3,271,071</u>

The weighted average floating interest rate on call deposits was 1.93%. Call deposits are due on demand.

12 SHARE CAPITAL

	31 Dec 2007	30 June 2007	31 Dec 2006
	€	€	€
Authorised, issued and fully paid			
100,000 ordinary shares of no par value	<u>-</u>	<u>-</u>	<u>-</u>

As the Company will have only one class of shares, the holders of its shares will under general law be entitled to participate in any surplus assets in a winding-up in proportion to their shareholdings.

The Company has passed a special resolution reducing the amount standing to the credit of the share premium account to €50,000,000, and that the surplus created form a distributable reserve. In accordance with The Companies (Guernsey) Law, 1994 (as amended) (the "Companies Law"), the Directors applied to the Royal Court in Guernsey for an order confirming such reduction of the share premium account following admission. The distributable reserve created on cancellation is available as distributable profits to be used for all purposes permitted by the Companies Law, including the buy back of Ordinary Shares and the payment of dividends.

13 BANK LOANS AND OVERDRAFTS

In December 2006, Citibank was appointed to structure and arrange a senior financing facility for the Company to be secured on the Company's investments. Prior to the closing of the senior term financing, a loan facility has been provided. The loan facility was increased from €40m to €70m on 26 July 2007.

The Loan facility is in the form of a secured loan agreement. As at 31 December 2007 total drawdowns under the loan facility were €36,238,827.

The loan is interest bearing, and the interest rate applied is a margin of 2.5% above EURIBOR taking into account any mandatory costs. The interest periods are three months from the utilisation date and quarterly thereafter. The Company must pay accrued interest on the last day of each interest period. The annual average rate applied during the period was 6.905%.

The loan facility is currently due to mature on 15 December 2008, with a further extension to December 2009 available at an increased margin of 5% above EURIBOR. The Company is currently exploring opportunities with Citibank to amend the terms of the facility.

14 TRADE AND OTHER PAYABLES	31 Dec 2007	30 June 2007	31 Dec 2006
	€	€	€
Accrued investment managers fees	293,426	304,402	307,747
Accrued audit fees	34,763	59,990	37,813
Accrued administration fees	5,891	5,972	3,404
Accrued registration fees	1,360	1,572	959
Other accrued expenses	40,365	43,438	22,093
Accrued Loan Interest	94,607	204,262	16,891
	470,412	619,636	388,907

15 FINANCIAL INSTRUMENTS

The Company's main financial instruments comprise:

- (a) Cash and cash equivalents that arise directly from the Company's operations;
- (b) Non-investment grade and equity tranches of RMBS in Continental Europe, and
- (c) Bank loans and overdrafts.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The most important types of risks to which the Company is exposed are market price risk, credit risk, liquidity risk, interest rate risk, residual interest risk, currency risk and political risk. Save where the Company purchases synthetic securities to gain exposure to an underlying cash asset or assets, derivative transactions will only be used for the purposes of hedging risks or for efficient portfolio management. The Company will not enter into derivative transactions for speculative purposes.

(a) Market Price Risk

The Company's exposure to market risk is comprised mainly of movements in the value of its investments and, to the extent that the Company utilises leverage, changes in interest rates that either increase its cost of borrowing or decrease any interest income. Several of the Company's investments are backed by floating rate assets and, as such, will be valued based on a market credit spread over a benchmark (such as EURIBOR). Increases in the credit spreads above such benchmarks may affect the Company's net equity or net income directly through their impact on unrealised gains or losses on investments within the portfolio, and therefore the Company's ability to make gains on such investments, or indirectly through their impact on the Company's ability to borrow and access capital.

Price sensitivity

The following details the Company's sensitivity to a 1% increase and decrease in the yield of its constituent financial assets and liabilities.

At 31 December 2007, if the yield of the non-current asset investments had been 1% higher with all the other variables held constant, the loss transferred to reserves for the period would have been c. £5,500,000 (2006: £5,300,000) higher, arising due to the decrease in the fair value of financial assets at fair value through profit or loss.

If the yield of the non-current asset investments had been 1% lower with all the other variables held constant, the profit transferred to reserves for the period would have been c. £5,500,000 (2006: c. £5,300,000) higher, arising mainly due to the increase in the fair value of financial assets at fair value through profit or loss.

The sensitivity is higher in 2007 than in 2006 because of an increase in the net financial assets and liabilities at fair value through profit or loss at the balance sheet date.

(b) Credit Risk

Credit risk refers to each individual borrower's ability to make the required interest and principal payments on the scheduled due dates. The Company seeks to mitigate credit risk by actively monitoring its portfolio of investments and the underlying credit quality of its holdings. The Company seeks to minimise credit risk further by ensuring its investment portfolio is diversified by geography, originator, servicer and issuer. The Company does not intend to undertake any credit hedging activities other than from time to time entering into transactions to hedge its credit exposure in relation to individual investments.

A further credit risk arises from the Company's use of a Special Purpose Vehicle ("SPV") to hold title to certain investments. There is a risk that the SPV may not pass the cash flows generated by the underlying investments back to the Company. There is also a risk that the SPV may fail to achieve the tax savings that it was designed for.

(c) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments. The market for subordinated asset-backed securities, including residual income positions, is illiquid. Accordingly, many of the Company's investments are illiquid. In addition, investments that the Company purchases in privately negotiated (also called "over the counter" or "OTC") transactions may not be registered under relevant securities laws or otherwise may not be freely tradable, resulting in restrictions on their transfer, sale, pledge or other disposition except in a transaction that is exempt from the

registration requirements of, or is otherwise in accordance with, those laws. As a result of this illiquidity, the Company's ability to vary its portfolio in a timely fashion and to receive a fair price in response to changes in economic and other conditions may be limited.

Furthermore, where the Company acquires investments for which there is not a readily available market, the Company's ability to deal in any such investment or obtain reliable information about the value of such investment or risks to which such investment is exposed may be limited.

The main financial commitments of the Company are the interest and capital payments on the bank loan from Citibank and the meeting of ongoing operational costs. These commitments are met by the cash flows received from the investments, which are monitored by the Investment Manager.

The following illustrates the maturity analysis of the Company's financial assets and liabilities as at the period end:

	Due on demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due > 5 years	Total
	€	€	€	€	€	€
Assets						
Investments designated at fair value	-	-	-	14,970,264	96,558,504	111,528,768
Trade and other receivables	-	2,799,865	241,571	-	-	3,041,436
Cash and cash equivalents	3,396,130	-	-	-	-	3,396,130
Total assets	3,396,130	2,799,865	241,571	14,970,264	96,558,504	117,966,334
Liabilities						
Bank loans and overdrafts	-	-	36,238,827	-	-	36,238,827
Trade and other payables	-	-	470,412	-	-	470,412
Total liabilities	-	-	36,709,239	-	-	36,709,239

(d) Interest Rate Risk

Changes in interest rates do not affect, the Company's ability to acquire loans and investments, the value of its investments and the Company's ability to realise gains from the settlement of such assets.

The weighted average effective interest rate for cash and bank balances as at 31 December 2007 was 1.93% (2006: 3.31%).

If interest rates had been 100 basis points higher and all other variables were held constant, the Company's increase in net assets attributable for the period ended 31 December 2007 would have increased by £34,765 (2006: £712,295) due to an increase in the amount of interest receivable on the bank balances.

If interest rates had been 100 basis points lower and all other variables were held constant, the Company's increase in net assets attributable for the period ended 31 December 2007 would have decreased by £34,765 (2006: £712,295) due to a decrease in the amount of interest receivable on the bank balances.

The Company's sensitivity to interest rates is lower in 2007 than in 2006 because of a decrease in the amount of cash balances held.

(e) Residual Interest Risk

The majority of the Company's investments consist of interests in and/or economic exposures to limited recourse securities that are subordinated in right of payment and ranked junior to

other securities that are secured by or represent ownership in the same pool of assets. In the event of default by an issuer in relation to such investments, holders of the issuer's more senior securities are entitled to payments in priority to the Company. Some of the Company's investments also have structural features that divert payments of interest and/or principal to more senior classes of securities secured by or representing ownership in the same pool of assets when the delinquency or loss experience of the pool exceeds certain levels. This may lead to interruptions in the income stream that the Company anticipates receiving from its investment portfolio, which may lead to the Company having less income to distribute to shareholders.

Although holders of asset-backed securities generally have the benefit of first ranking security (or other priority rights) over any collateral, control of the timing and manner of the disposal of such collateral upon a default typically will devolve to the holders of the senior class of securities outstanding. There can be no assurance that the proceeds of any such sale of collateral will be adequate to repay in full the Company's investments.

(f) Currency Risk

The Company's accounts are denominated in Euros while investments may be made and realised in both Euros and Sterling. Changes in rates of exchange may have an adverse effect on the value, price or income of the investments. A change in foreign currency exchange rates may adversely impact returns on the Company's non-Euro-denominated investments.

The Company will seek to reduce the currency risk by financing investments in the same currency as the relevant investment where commercially practical or enter into hedging transactions for whole or part of the currency exposure. The Investment Manager may elect, however, to have the Company bear a level of currency risk that could otherwise be hedged where it considers that bearing such risks is acceptable.

At the balance sheet date the Company had no material financial assets or liabilities not denominated in Euros, other than those covered by the hedging agreement detailed below.

On 7 December 2006, the Company entered into a QUANTO FX deal with a counterparty which was structured as a Total Return Swap and which will terminate on 31 December 2013. The purpose of the agreement is to hedge a foreign exchange transaction entered into by the Company involving £5,525,000 worth of investments secured over Mortgage-only repayment certificates due 2060 and Residual certificates due 2060.

The counterparty will own the securities through a Total Swap Return Agreement which will be cash collateralised in full by the Company, so therefore the Company will have the right to receive all the flows converted into Euros through the QUANTO FX trade.

(g) Political Risk

Retrospective political law changes may have an adverse effect on the value of the Company's investments. For example, in its investment update in May 2007, the Company reported that retrospective changes in law in Italy had significantly reduced the prepayment penalties for mortgages. It is difficult to assess exactly how these changes will impact consumer behaviour, it is possible that prepayment rates will increase impacting the expected cash flows from investments and the ability of the Company to maintain the same level of dividend payments.

(h) Collateral

Under the terms of the deed of assignment dated 15 February 2007 and the amendments dated 25 July 2007 and 17 December 2007 entered into between the Company and Citibank N.A., the Company has assigned absolutely the unquoted investments in RMBS and ABS and all rights, title and interest, present and future, without limitation, and its right to receive monies or securities to Citibank N.A. as security for the loan facility. Where there is an event of default in respect of the company under the loan facility, Citibank N.A. will be entitled to enforce its security over the collateral.

(i) **Capital management**

The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the balance sheet. Capital for the reporting periods under review is summarised as follows:

	31 Dec 2007	30 Jun 2007
	€	€
Share premium	50,000,000	50,000,000
Retained earnings	31,257,095	47,344,025
	<hr/>	<hr/>
	81,257,095	97,344,025
	<hr/>	<hr/>

17 RELATED PARTY TRANSACTIONS

Anson Fund Managers Limited is the Company's administrator and secretary and Anson Registrars Limited is the Company's registrar, transfer agent and paying agent. John R Le Prevost is a director of Anson Fund Managers Limited and of Anson Registrars Limited. €52,885 (2006:€28,381) of fees were incurred by the Company with these related parties in the period, of which €7,251 (2006:€4,363) was due to these related parties as at 31 December 2007.

Tanguy Boulet is a partner in the Investment Manager, Ocean Capital Associates LLP. €589,044 (2006:€615,495) in fees were incurred by the Company with the Investment Manager in the period, of which €293,426 (2006:€307,747) was due to the Investment Manager as at 31 December 2007. Tanguy Boulet received no fees as a director.

18 SUBSIDIARY UNDERTAKINGS

On 4 July 2007, the Company purchased two Pass-Through Notes from EETI Finance Limited, ("EETIFL"), a special purpose vehicle incorporated in Ireland, and transferred in exchange five investments at book value to EETIFL (with a value at the balance sheet date of €34,792,396 million), under a Purchase Agreement and a Support Deed. Under the Pass-Through Notes, the cash flow from the underlying five investments revert to the Company.

The investment policy of EETIFL is directed by the Investment Manager on behalf of the Company and all the risks and rewards of the ownership of the investments of EETIFL pass to the Company. In accordance with SIC12, EETIFL is considered to be a subsidiary of the Company even though it is not legally owned by the Company.

Under the terms of the Support Deed the Company has underwritten all running costs to be incurred by EETIFL during its life, which are estimated to be in the region of €41,000 per annum.

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END OF ANNOUNCEMENT