REAL ESTATE CREDIT INVESTMENTS LIMITED
(FORMERLY QUEEN'S WALK INVESTMENT LIMITED)

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

Contents

Chairman's Statement

The past financial year has been transformational for Real Estate Credit Investments Ltd (RECI) with a new name, a new capital structure and new phase of growth all in place.

Twelve months ago, as Queens Walk Investments Limited (QWIL), your Company achieved the financial stability it had been pursuing. By the end of the year ending 31 March 2011, the renamed RECI was starting to bear the fruits of careful growth evidenced in part by seven consecutive quarters of profits, and a rise of 21% in Net Asset Value (NAV) from 16 September 2010 to 31 March 2011.

The Company's real estate debt investment strategy started in autumn 2008. In the weeks following the collapse of Lehman Brothers, our portfolio managers identified emerging dislocations in the European real estate bond market. While they could see the opportunity, the Company did not have the financial resources to exploit it fully. Small investments in 2009 and early 2010 ensured that QWIL participated in the investment opportunity. But it was the €26.6 million capital raising completed on 16 September 2010 that put the Company in a position to substantially increase investment in undervalued real estate debt.

In September's rights issue, the Company's shareholders approved a 1 for 2 placing and open offer of ordinary shares at €2.00 per share. In conjunction with the placing and open offer, the Company also issued a bonus 8% seven-year preference share, denominated in sterling, to qualifying shareholders. The preference shares offer an income source to investors while the ordinary shares offer capital growth. At the same time, signalling the change in investment strategy, the Company changed its name to Real Estate Credit Investments Ltd.

Momentum in Real Estate Debt Portfolio

Following the September capital raising, the pace of new investment in undervalued real estate bonds picked up. RECI has made €39.8 million of investments in the final two quarters of the financial year, with €21.0 million of purchases in the third quarter and €18.8 million in the fourth quarter. The Real Estate Debt portfolio made up 57.2% of assets under management as of 31 March 2011, compared with 15.3% as of 31 March 2010.

The performance of the Real Estate Debt Portfolio has made a sizable contribution to higher NAV, which reached €1.92 per share at 31 March 2011, up from €1.59 per share immediately after the rights issue. RECI has been able to realise profits on earlier investments in the Real Estate Debt Portfolio, including sales of €11.5 million in the most recent quarter, and reinvest the proceeds. The weighted average expected yield-to-maturity of the Real Estate Debt Portfolio as at 31 March 2011 was approximately 13.29% and the weighted average purchase price was 64.4 cents.

Financial Summary

RECI recorded net profit of €15.6 million or €0.39 per ordinary share for the financial year ended 31 March 2011, compared with a net profit of €2.3 million or €0.09 per share for the financial year ended 31 March 2010.[1]

Gross assets at the end of the 2011 financial year stood at €134.9 million, up from €111.3 million at the end of the 2010 financial year, representing an increase of 21%. In the 2011 financial year, the Company reported gross cash flows of €25.6 million[2].

For the quarter ended 31 March 2011, the Company declared a quarterly dividend of €0.014 per share, and has paid or declared a total of €0.241 per share in the year ended 31 March 2011. Since its IPO in December 2005 the Company has paid or declared dividends of €2.611 per share. The Directors remain committed to recommending payment of quarterly dividends that can be sustained by the Company's income generating potential.

[1] Profit per share calculations use shares outstanding at 31 March 2011, and shares outstanding at 31 March 2010, and not the weighted average number of shares per the financial statements

[2] Cash received from investment portfolio including hedges (excludes cash received on sale of investments)

Chairman's Statement (continued)

Managing Legacy Assets
While RECI has increased its exposure to European real estate debt it has also been diligent in actively managing its legacy assets of SME, European Mortgage and UK Mortgage Portfolios. The investment manager has taken steps to maximise cash-flow, monitor valuations and identify opportunities to sell legacy assets.

RECI has demonstrated considerable success in selling its legacy assets. In the 2011 financial year the Company sold three residual income positions (one UK Mortgage Portfolio and two SME Portfolios). The sale prices achieved for these assets were accretive to NAV underscoring the valuations we have assigned to the legacy assets.

Despite turbulence and speculation surrounding Portugal's economic standing, subsequent to the financial year end RECI succeeded in selling its holdings in the three Lusitano residual income positions at prices accretive to NAV. Exposure to Portuguese assets has fallen to 18.7% at the end of the 2011 financial year, from 36% as of 31 March 2010.

Subsequent to the year end, the Company has also successfully sold three RMAC residual income positions at prices that were accretive to NAV.

Outlook – Increasing Investment in Loan Market
The strategy RECI embarked on after the September capital raising is delivering solid growth in NAV. Our Real Estate Debt Portfolio is now a substantial proportion of the balance sheet reflecting the delivery of our core strategy, and delivering on expectations of growth and profitability.

RECI is committed to build on the growth in NAV of the past two quarters, by continuing to invest cash flow in undervalued assets to generate strong risk-adjusted returns in the Real Estate Debt Portfolio.

For much of the past year RECI's strategy predominantly has been to focus on making investments in undervalued real estate securities. The split of new investments has been two thirds in bonds backed by commercial real estate debt in the form of CMBS and one third of new investments in bonds backed by residential mortgages in the form of RMBS and most investments have been in Northern Europe, including the UK.

While the Company continues to see opportunities in the bond markets, we believe that now is the right time to increase investment in the loan market.

Rising values in real estate bonds have boosted returns for our Real Estate Debt fund, but also means that fewer bonds returning sizable yields are available. However, yields in the loan market remain attractive and this should remain the case in the medium term. Demand by borrowers to refinance is rising, while appetite to lend in the mezzanine loan market is constrained. For example, some institutional investors are constrained from investing in loans because of high capital requirements demanded by new regulation.

Moreover RECI is ideally-positioned to take advantage of this opportunity. RECI has access to market intelligence on refinancing opportunities and strong relationships with loan market participants. In the medium term, we will balance investments between loans and securities and between residential and commercial exposure, based on the relative values offered across these four categories.

The Company will continue to actively manage the residual income positions whilst seeking opportunities to sell assets at attractive prices. The Company's intention is to reduce the exposure to the residual income positions in order to provide investors with a clear opportunity to take advantage of the dislocation in the European real estate debt markets.

Chairman’s Statement (continued)

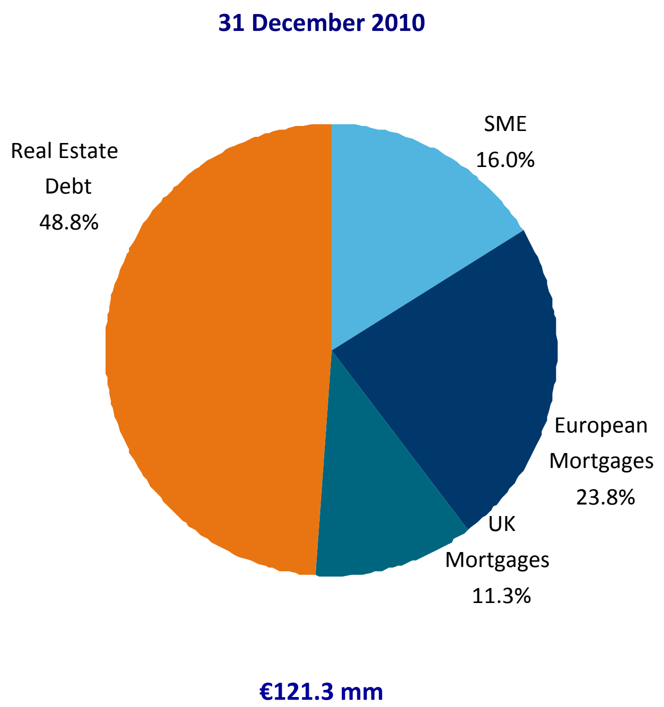
Annual General Meeting
The Company’s Annual General Meeting will be held at the registered offices of the Company on 16 September 2011. The notice of the Annual General Meeting and a form of proxy will accompany the annual report to be distributed to shareholders in the Company.

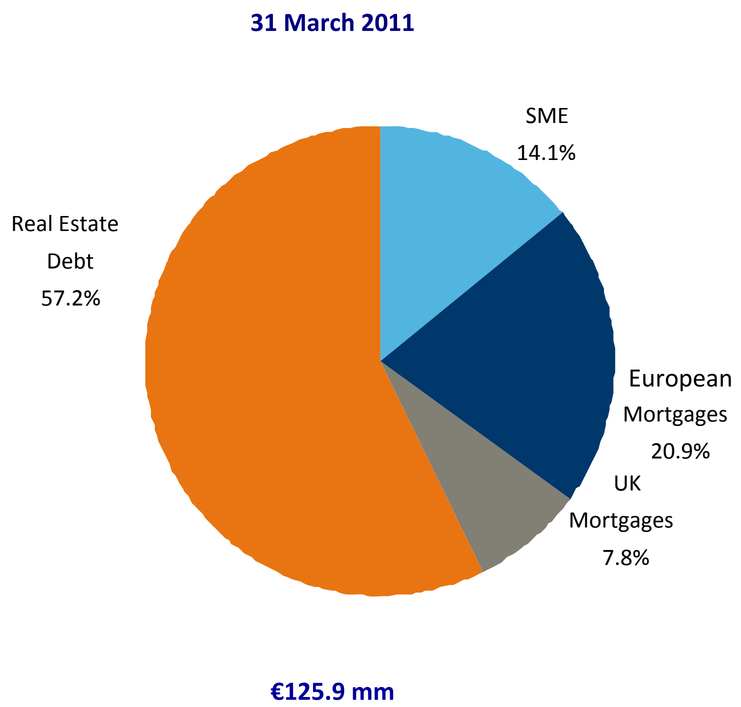
Tom Chandos, Chairman
16 June 2011

Investment Manager's Report

Investment Portfolio

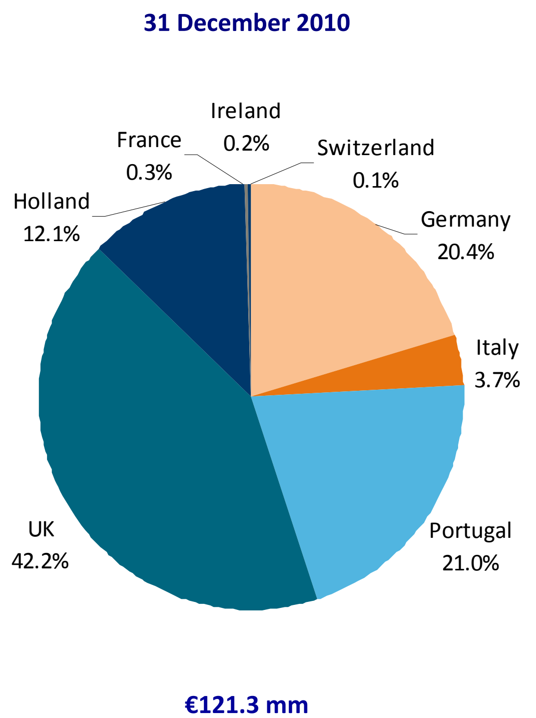
A breakdown of the Company's investment portfolio by asset type (by reference to underlying asset collateral) as at 31 December 2010 and 31 March 2011is set out below. The exposure to the Real Estate Debt Portfolio now accounts for the majority of the investment portfolio. Percentages for each asset type are in relation to the value of the Company's investment portfolio (excluding cash and hedges).

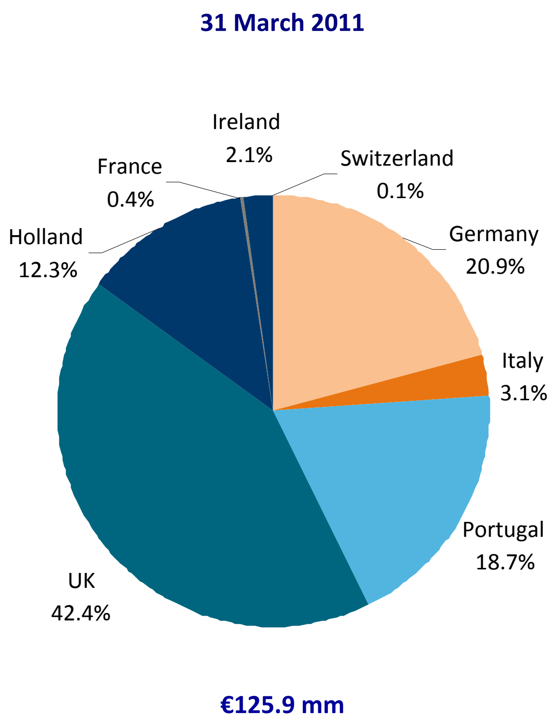




Values may not sum to 100% due to rounding differences

A breakdown of the Company's investment portfolio as at 31 December 2010 and 31 March 2011 by jurisdiction (by reference to underlying asset originator) is set out below.





Values may not sum to 100% due to rounding differences

Investment Manager's Report (continued)

Real Estate Debt Portfolio[1]

The Real Estate Debt Portfolio is continuing to grow while generating solid returns.

The Company recorded fair value gains on the portfolio of €6.0 million for the quarter ended 31 March 2011 and cash flows of €1.2 million in the quarter (versus €1.9 million in the previous quarter). As at 31 March 2011 the average purchase price of the portfolio was 64.4 cents with a weighted average expected yield to maturity of 13.3%.

By the end of the quarter the Real Estate Debt Portfolio represented a growing majority of RECI's assets under management. The portfolio accounted for 57.2% of all investment assets, up from 48.8% three months earlier.

New bond purchases totalled €18.8 million in the fourth quarter, versus €21.0 million in the third quarter. As at 31 March 2011 the portfolio of 84 bonds was valued at €72.0 million, with a nominal value of €109.5 million [2].

The portfolio has grown further since the end of the fourth quarter. Between 1 April 2011 and 31 May 2011, the Company invested €9.6 million at an average price of 81.1 cents and a weighted average expected yield-to-maturity of 10.3%. As at 31 May 2011, the portfolio consisted of 83 bonds with a fair value of €77.4 million and a nominal market value of €113.7 million.

Ratings Distribution by Fair Value (as at 31 May 2011)

Current Rating	UK CMBS	UK RMBS	Euro CMBS	Euro RMBS	SME	Total	Total at 31 Mar 11
AAA	0.0%	3.0%	0.0%	0.0%	0.0%	**3.0%**	**7.9%**
AA	1.2%	11.3%	3.2%	0.7%	0.0%	**16.4%**	**10.8%**
A	2.3%	6.0%	9.5%	0.0%	0.0%	**17.8%**	**18.5%**
BBB	7.2%	7.7%	8.9%	2.5%	1.3%	**27.6%**	**26.9%**
BB and Below	14.2%	6.2%	13.6%	1.1%	0.0%	**35.1%**	**35.9%**
Total	**24.9%**	**34.2%**	**35.3%**	**4.4%**	**1.3%**		
Total at 31 Mar 11	**22.3%**	**33.5%**	**39.1%**	**3.6%**	**1.5%**	**100%**	

Totals may not sum due to rounding differences

Seeking value in a risk-on/risk off environment

Heavy buying by tactical and technical investors led to a steady tightening of spreads in RMBS and CMBS markets from February to late May. RECI's investment approach is based on pursuing fundamental value in the real-estate backed debt markets, which distinguishes the Company from tactical or technical buyers. Accordingly, RECI significantly slowed its investments in RMBS and CMBS as fundamental value diminished during this run up.

However, from late May the market sentiment has shifted and yields have widened creating attractive entry points for new investments. Tactical and technical investors cut their holdings on the back of recent weakness in US macro numbers, news of liquidation of the AIG ABS portfolio and the recent announcement of Dexia's ABS portfolio liquidation. Fundamental value-based buying opportunities have returned and since the end of May the Company has made net purchases of approximately €7.4 million of bonds at attractive values.

European Mortgage Portfolio

The European Mortgage Portfolio generated cash flows of €2.3 million for the quarter ended 31 March 2011, compared to €3.4 million in the previous quarter and ahead of forecasts of €0.6 million. Write-downs in the portfolio totalled €1.3 million of which the Sestante mortgage portfolio accounted for €1.0 million.

[1] The Real Estate Debt portfolio includes two bonds collateralised by SME loans accounting for 1.3% of the portfolio at 31 May 2011.
[2] Cost and nominal shown are calculated with original notional using pool factor and FX rate at 31 Mar 2011.

Investment Manager's Report (continued)

European Mortgage Portfolio (continued)

Subsequent to the quarter end, the Company sold its three Lusitano mortgage residual income positions at prices accretive to NAV. RECI has one remaining Portuguese mortgage portfolio, the Magellan 1 portfolio. The loans in this portfolio were originated in 1997 have an average loan to value of 39% with mortgage payments linked to Euribor. The Company expects this portfolio to perform reasonably well despite the continued domestic pressures in Portugal. The Company also has exposure to the Sestante mortgage portfolio.

SME Portfolio

Cash flows in the quarter ended 31 March 2011 totalled €0.2 million, compared to €0.3 million the previous quarter.

The Company expects default rates in this portfolio to remain volatile. The SME Portfolio's average default rate decreased to 0.58%, from 0.94% in the previous quarter. The Smart 06-1 asset recorded a fall in default rates from 1.8% to 1.2%. The default rate of the Amstel SME Portfolio was 0%.

The table below outlines actual default rates in the SME Portfolio and intra-period volatility of default rates. The valuations of the SME Portfolio reflect a conservative forecast of future defaults relative to historical averages.

	Sept 2010 Default Rate (annualised)	Dec 2010 Default Rate (annualised)	Mar 2011 Default Rate (annualised)
Amstel 06-1	0.0%	0.0%	0.0%
Smart 06-1	0.5%	1.8%	1.2%
Average	0.2%	0.9%	0.6%

As highlighted previously, the Smart 06-1 portfolio has exposure to Spanish SMEs. To reflect the weakening conditions in Spain, the Company has increased the assumed loss rate of defaulted loans in the portfolio. This has resulted in a €2.4 million reduction in the fair value of this asset.

UK Mortgage Portfolio

The UK Mortgage Portfolio recorded cash flows of £1.2 million in the quarter ended 31 March 2011 compared to £1.9 million in the previous quarter.

In January of this year, the Company sold the Eurosail 2006-1 mortgage residual income position. The sale was accretive to NAV. Subsequent to the quarter end, the Company also sold its three RMAC residual income positions at a price that was accretive to NAV. Following these sales, the Company's UK Mortgage Portfolio consists of the two Alba assets and the Newgate 2006-1asset which have been valued at zero.

The Company continues to work with mortgage originators and its advisors to identify loans that do not satisfy the representations and warranties provided at the time of the securitisation.

Portfolio Valuation

In accordance with the Company's valuation procedures, the fair value of the Company's investments is calculated on the basis of observable market data, market discount rates and the Investment Manager's expectations regarding future trends. The Company obtains independent prices for bonds in its Real Estate Debt Portfolio. However, there is a lack of reliable, independent broker marks for assets in the residual income portfolio. Therefore, the Company has elected to use a model-based approach to value its residual investments and employs an external valuation agent to review the underlying pricing assumptions. The Company applies a discount rate to the loss-adjusted cash flows to calculate the fair value.

Investment Manager's Report (continued)

Portfolio Valuation (continued)

Changes in the balance sheet value of the residual portfolio between 31 December 2010 and 31 March 2011 totalled -€8.0 million. This comprised -€2.0 million of principal amortisation, sales of -€3.1 million and fair value losses of -€2.9 million. In relation to the Real Estate Debt Portfolio, the balance sheet value increased by €12.8 million. There were €18.8 million new purchases, fair value gains of €6.0 million, principal amortisations of -€0.5 million and sales of -€11.5 million. After giving effect to these balance sheet changes in the quarter ended 31 March 2011, the NAV of the Company was €1.92 per ordinary share as at 31 March 2011, versus €1.80 per ordinary share as at 31 December 2010.[3]

The Company recorded total cash flows of €5.1 million in the quarter ended 31 March 2011, from the Investment Portfolio (excluding sales and hedges). The table below summarises changes in balance sheet values of the Company's Investment Portfolio by asset class:

Asset Class	31 Dec 2010 B/S Value[1] (€mm)	31 Mar 2011 B/S Value[2] (€mm)	Change to B/S Value Since 31 Dec 2010 (€mm)	Cash Flows Received in the Quarter Ended 31 Mar 2011 (€mm)	Cash Flows Received in the Quarter Ended 31 Dec 2010[3] (€mm)
UK Mortgages	13.7	9.9	-3.8	1.3	2.2
Euro Mortgages	28.8	26.3	-2.5	2.3	3.4
SME	19.5	17.8	-1.7	0.2	0.3
Real Estate Bonds	59.2	72.0	12.8	1.2	1.9
TOTAL[4]	121.3	125.9	4.7	5.1	7.7

1. Balance sheet values as at 31 December 2010 are expressed using 31 March 2011 FX rates. 31 December 2010 value includes Eurosail 2006-1
2. The balance sheet value figures and include accrued interest. 31 March 2011 value does not include Eurosail 2006-1.
3. Cash flows for 31 December 2010 are expressed using 31 March 2011 FX rates.
4. The values for each column may not sum to the total due to rounding differences.

Company Outlook –Ideally positioned to take advantage of opportunities in European Real Estate Debt

RECI is committed to building on the profitability of the past seven quarters, by continuing to invest in undervalued assets capable of generating strong risk-adjusted returns in its Real Estate Debt Portfolio. While the Company continues to identify attractive investments in the bond markets, we also anticipate an increase in opportunities to deploy capital in the loan markets.

Rising values in real estate bonds have boosted returns for our Real Estate Debt Portfolio, but have also resulted in higher cash prices for bonds generally. The Company has therefore been selective in identifying bonds that meet our risk and return objectives. RECI's portfolio management team is committed to fundamental value-based investing and accordingly scaled back its bond investment activity from April as more speculative investors entered the CMBS and RMBS markets and drove down yields. Many of these speculative investors reduced their exposures in late May and fundamental value has started to return. Accordingly RECI has once again increased its buying activity. We expect volatility in the securities markets to continue throughout 2011 which should provide attractive entry points for new bond investments.

Loan market prices are currently less volatile and over the past few months yields in the commercial and residential loan markets have remained attractive. RECI believes this will remain the case in the medium term. Demand from borrowers to refinance is rising, while appetite to lend in the mezzanine loan market is constrained. For example, some institutional investors are constrained from investing in mezzanine loans because of high capital requirements demanded by new regulation.

[3] The values may not sum to totals or sub-totals due to rounding differences.

Investment Manager's Report (continued)

Company Outlook –Ideally positioned to take advantage of opportunities in European Real Estate Debt (continued)

RECI is ideally-positioned to take advantage of these opportunities. RECI has access to both market intelligence on loan refinancing opportunities and strong relationships with loan market participants. In the medium term, we will balance investments between loans and securities and between residential and commercial exposure, based on the relative values offered across these four categories.

With respect to the Company's legacy portfolio, RECI will continue to manage the legacy SME, European Mortgage and UK Mortgage Portfolios with a high degree of diligence. The priority remains to identify opportunities to sell these assets at attractive prices.

Cheyne Capital Management (UK) LLP
15 June 2011

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2011.

Queens's Walk Investment Limited (the "Company") was registered on 6 September 2005 with registered number 43634 and is domiciled in Guernsey, Channel Islands. On 17 September 2010, the Company changed its name to Real Estate Credit Investments Limited. The Company commenced its operations on 8 December 2005. The Company is an authorised closed-ended investment company with limited liability formed under The Companies (Guernsey) Law, 2008. Its Ordinary Shares have a premium listing on the London Stock Exchange and its Preference Shares have a standard listing. The registered office of the Company is First Floor Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 6HJ, Channel Islands. "Group" is defined as the Company and its subsidiary. At 31 March 2011, the Company's only subsidiary was Trebuchet Finance Limited, an Irish registered limited Company.

Principal activity and business review

The principal activity of the Group during the year was that of an investment group. The Group is expecting to continue its activities in the coming year. A review of the year is provided in the Investment Manager's Report.

Results and dividends

The results for the year and the Group's financial position at the end of the year are shown on pages 23 and 24. Dividends totalling Euro 6,634,520 (31 March 2010: Euro 8,526,292) were paid/declared on the ordinary shares during the year. A final dividend for the year ended 31 March 2011 of Euro 0.014 per share (31 March 2010: Euro 0.08 per share) has been declared by the Directors on 16 June 2011 and has not been included as a liability in these consolidated financial statements. Preference dividends amounting to Euro 2,470,413 were paid on the preference shares during the year.

Capital structure

Details of the authorised and issued share capital and the Preference Shares issued and fully paid, together with details of the movements in the Company's issued share capital during the current and prior year are shown in Note 18. The Company has one class of Ordinary Shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the company. The holders of Preference Shares are entitled to receive dividends of 8% per annum of the Preference Share Notional Value. Preference Shares do not carry the right to vote.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association and The Companies (Guernsey) Law, 2008. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Articles of Association and the Corporate Governance Statement on pages 15 to 18.

Under its Articles of Association, the Company has authority to issue an unlimited number of Ordinary Shares of no par value.

Directors

The Directors of the Company who served during the year and to date were:

Tom Chandos (Chairman)
Graham Harrison
John Hawkins
Talmai Morgan
Christopher Spencer

Directors' Report (continued)

Directors (continued)

The Directors' interests (number of Ordinary and Preference Shares) in the share capital of the Company at 31 March 2011 (some of which are held directly or by entities in which the Directors may have a beneficial interest) were:

	Number of Ordinary Shares	% of Holding	Number of Preference Shares
Tom Chandos (Chairman)	28,500	0.07%	35,625
Graham Harrison	1,500	0.00%	3,375
John Hawkins	1,500	0.00%	3,375
Talmai Morgan	1,500	0.00%	3,375
Christopher Spencer	1,500	0.00%	3,375

Substantial interests in share capital

In the period 31 March 2010 to 31 May 2011, the company did not receive any notifications, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of major shareholder acquisitions or disposals in the Company.

The Investment Manager

Having reviewed the performance of the Investment Manager, the Directors are satisfied that the continued appointment of the Investment Manager on the terms agreed is in the best interests of the shareholders and the Group.

Auditor

A resolution for the reappointment of Deloitte LLP will be provided at the next annual general meeting.

Each of the persons who is a Director at the date of approval of the financial statements confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and

(2) the Director has taken all steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 249 of The Companies (Guernsey) Law, 2008.

Listing Requirements

On 13 December 2005 the Company's ordinary shares were admitted to the Official List of The London Stock Exchange. The ordinary shares have a premium listing. The preference shares have a standard listing.

Authorised and Issued Share Capital

There has been no movement in the authorised share capital during the year. The issued share capital increased to 89,925,689 shares, made up of 39,966,985 Ordinary Shares and 49,958,704 Preference Shares.

Significant Events during the year

On 15 September 2010, the Company's Shareholders approved a 1 for 2 Placing and Open Offer of Ordinary Shares at EUR 2.00 per share. In conjunction with the Placing and Open Offer, the Company has issued a bonus 8% seven year Preference Share, denominated in GBP, to qualifying Shareholders. The Bonus Issue amounted to 1.25 Preference Shares for every Ordinary Share held. The Company intends to use the proceeds of the offer to invest in European Real Estate Debt Investments. Accordingly, the Company changed its name to Real Estate Credit Investments Limited to reflect its change in investment policy which is now to aim to provide Ordinary Shareholders with a levered exposure to a diversified and amortising portfolio of Residual Income Positions and a growing portfolio of Real Estate Debt Investments and to provide Preference Shareholders with stable returns in the form of quarterly dividends.

Directors' Report (continued)

Significant Events during the year (continued)
The Group will seek to achieve this objective by investing primarily in debt secured by commercial or residential properties in Western Europe and the United Kingdom ("Real Estate Debt Investments").

The Group has amended its dividend policy. The Group's dividend policy was to pay out a majority of its net income (but excluding any realised or unrealised surpluses from the sale, realisation or revaluation of investments held directly by the Company) to Ordinary Shareholders in the form of quarterly dividends, subject to having distributable profits available for this purpose and any Financial Services Authority or other legal limitations. Following completion of the Bonus Issue of Preference Shares, the Company currently intends that available income is first used to pay any Preference Dividend that is due and payable and then, if the Directors in their sole discretion so resolve, to pay dividends to Ordinary Shareholders. It is expected that any future dividends payable to Ordinary Shareholders, following payment of any Preference Dividend, will be substantially reduced as compared to the dividends that have been previously paid in respect of the Ordinary Shares.

However, the Directors do currently intend that the Company continues to pay a dividend to Ordinary Shareholders when it is able and appropriate to do so. The Company further intends, subject to the performance of the Investment Portfolio, that the amount of dividends paid, if any, to Ordinary Shareholders following the change to the dividend policy should be adjusted from time to time in line with any increase or decrease in interest income from the Investment Portfolio, subject to applicable law and regulation.

From 8 March 2011, State Street (Guernsey) Limited was appointed Administrator in place of Kleinwort Benson (Channel Islands) Fund Services Limited and provides all administration services to the Group in this capacity.

Subsequent Events
In May 2011 the Company reduced its exposure to Portuguese mortgage residual income investments by selling the Lusitano Mortgages No. 1 plc, Lusitano Mortgages No. 2 plc and Lusitano Mortgages No. 3 plc Portuguese mortgage residual income investments, and in June 2011, the Company further reduced its exposure to UK mortgage residual income investments by selling the RMAC 2004 NSP4 plc, RMAC 2005 NS3 plc and RMAC 2005 NS4 plc UK mortgage residual income investments, the sale of these residual income positions raised EUR 26,540,167.

On behalf of the Board on 15 June 2011

Christopher Spencer **Director**	**Graham Harrison** **Director**

Investment Policy

Asset Allocation
In order to achieve its investment objective, the Company will invest primarily in debt secured by commercial or residential properties in Western Europe and the United Kingdom ("**Real Estate Debt Investments**"). The Real Estate Debt Investments may take different forms but will likely be: (i) securitised tranches of secured real estate related debt securities, for example, RMBS and CMBS, together MBS; and (ii) secured real estate loans, debentures or any other form of debt instrument.

The Company will generally invest, either directly, through SPVs or subsidiaries, in new Real Estate Debt Investments on a buy-to-hold basis based on an analysis of the credit worthiness of the underlying assets in the applicable investment. Therefore, the total return from any given investment will be driven by actual performance of the underlying real estate loans rather than by market prices. However, the Company will actively manage the Investment Portfolio, and may from time to time dispose of an investment prior to its maturity if the Company so decides for reasons including, but not limited to, the price offered being sufficiently attractive, the credit view of the underlying assets changing or superior alternative investments being available. The Company's investments in Real Estate Debt Investments will have some or all of the following key characteristics:

- investments will be backed, directly or indirectly, by real-estate primarily located in Western Europe and the UK;
- investments will have a varied weighted average life profile, with the weighted average life of the individual investments generally ranging from six months to 15 years;
- investments in securities will be rated by one of Fitch, Moody's, Standard and Poor's or another recognised rating agency; and/or
- investments in loans must be secured by one or more commercial or residential properties and loans may not exceed 85 per cent. LTV at the time of the investment.

For the purposes of the paragraph above, "Western Europe" shall mean Andorra; Austria; Belgium; Denmark; Finland; France; Germany; Gibraltar; Guernsey; Iceland; Ireland, Isle of Man; Italy; Jersey; Liechtenstein; Luxembourg; Monaco; the Netherlands; Norway; Portugal; San Marino; Spain; Sweden; and Switzerland.

The Company does not currently intend actively to increase existing Residual Income Positions within the Investment Portfolio or to invest in other Residual Income Positions. While the Company will have the flexibility to invest in assets that do not have some or all of the characteristics listed above, such as, inter alia, direct real estate investments, it has adopted a policy which requires that at least 70 per cent. of its Net Asset Value will comprise Real Estate Debt Investments, measured at the time of, and after giving effect to, each proposed new or additional investment or at the time of any disposal by reference to the latest then available Net Asset Value. If upon such a measurement the Investment Manager determines that less than 70 per cent. of the Investment Portfolio comprises Real Estate Debt Investments, the Investment Manager has agreed with the Company to take such action, including the sale of assets, as would be necessary to correct this imbalance prior to acquiring any further assets which do not qualify as Real Estate Debt Investments or Residual Income Positions. At 31 March 2011, 92.30% of the net asset value of the Company was invested in Real Estate Debt Investments.

The Company will not make investments via derivatives unless the Company has fully collateralised the derivative position or cannot be exposed to margin calls. However, the Company intends to (but shall not be obliged to) reduce exposure to interest rate and currency fluctuations through the use of currency and interest rate hedging arrangements for the purposes of efficient portfolio management. From time to time, the Company may also enter into derivative transactions to hedge the value of the Investment Portfolio.

Corporate Governance Statement

The Directors are committed to ensuring that high standards of corporate governance are maintained and have made it Group policy to comply with best practice on corporate governance, insofar as the Directors believe it is relevant and appropriate to the Group, and notwithstanding the fact that the Company previously was not obliged to and had availed itself of the exemption not to comply with the "Combined Code" (i.e. the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance) as it is a Guernsey registered Company.

However, prior to the changes discussed below, the Group complied with the corporate governance guidelines issued by the Guernsey Financial Services Commission on 10 December 2004, whose underlying principles are similar to those of the Combined Code. In addition, the Directors, in accordance with best practice, complied with the Combined Code provisions as far as possible.

Following a two year consultation the FSA has announced changes to the Listing Rules. With effect from 6 April 2010, overseas companies with a premium listing are required to 'comply or explain' against the full Combined Code. The requirement on all EEA companies listed in London to produce a corporate governance statement in accordance with DTR 7.2 is being extended to non-EEA companies. The new corporate governance disclosures for Premium listed overseas companies will apply to periods beginning after 31 December 2009.

The company is committed to the principles of corporate governance contained in the Combined Code on Corporate Governance that was issued in 2008 by the Financial Reporting Council ('the Code') for which the board is accountable to shareholders. Additionally, the company has chosen to comply with the 2010 Combined Code.

Statement of compliance with the Combined Code
Throughout the year ended 31 March 2011, the company has been in compliance with the Code provisions set out in section 1 of the 2008 FRC Combined Code.

Statement about applying the principles of the Code
The company has applied the principles set out in section 1 of the Code, including both the Main Principles and the supporting principles, by complying with the Code as reported above. Further explanation of how the Main Principles have been applied is set out below and in the Directors remuneration report.

Going concern
The Directors believe it is appropriate to adopt the going concern basis in preparing the consolidated financial statements as, after due consideration, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Regarding the ongoing funding (per Note 18) the Directors have taken into account the current cash balance, the forecast cash inflows from the investments and operating expenses. On 6 April 2010, the Company paid back the remaining EUR 8,642,967 loan balance and all interest due, terminating any further liabilities under the loan facility. In addition, the Directors note the cash resources available at 31 March 2011 (Euro 6.68m) some of which will be used to pay the proposed dividend, are sufficient to cover normal operational costs and current liabilities for the foreseeable future.

Board effectiveness
For the purposes of assessing compliance with the Combined Code, the Board considers all of the current Directors as independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

In accordance with the Combined Code, the Board has established an Audit Committee and a Nomination Committee, in each case with formally delegated duties and responsibilities within written terms of reference. The Board has not established a remuneration committee as the Group has no executive Directors or employees.

Corporate Governance Statement (continued)

Board effectiveness (continued)
The Audit Committee is chaired by Mr Spencer and its other members are Mr Morgan, Mr Harrison and Mr Hawkins. Only independent Directors serve on the Audit Committee and members of the Audit Committee have no links with the Group's external Auditors and are independent of the Investment Manager. The terms of reference state that the Audit Committee will meet not less than twice a year and will meet the external Auditors at least once a year.

The Audit Committee is responsible for overseeing the Group's relationship with the external Auditors, including making recommendations to the Board on the appointment of the external Auditors and their remuneration. The Audit Committee is required to consider the nature, scope and results of the Auditors' work and reviews, and develop and implement policy on the supply of any non-audit services that are to be provided by the external Auditors.

It receives and reviews reports from the Investment Manager and the Group's external Auditors relating to the Group's annual and interim reports and accounts. The Audit Committee focuses particularly on compliance with legal requirements, accounting standards and the Listing Rules and ensuring that an effective system of internal financial and non-financial controls is maintained.

The Group does not have an internal audit function but due to internal control processes put in place by the Administrator, Sub-Administrator, Custodian and Investment Manager, the Board has decided to place reliance on their systems and internal control procedures.

The Nomination Committee is chaired by Mr Chandos and its other members are Mr Morgan, Mr Harrison, Mr Hawkins and Mr Spencer. The members of the nomination committee are and will be independent Directors. The terms of reference state that the Nomination Committee will meet not less than once a year, will have responsibility for considering the size, structure and composition of the Board, and retirements and appointments of additional and replacement Directors and that the Nomination Committee will make appropriate recommendations to the Board.

The following table shows the number of regularly scheduled meetings held by the Board and each committee for the year ended 31 March 2011 as well as the number of attendances at each meeting.

	Scheduled Board Meetings	**Ad-hoc Board Meetings**	**Nomination Committee Meeting Attendance**	**Audit Committee Meeting Attendance**
Board of Directors				
Tom Chandos	5/5	5/9	1/1	n/a
John Hawkins	4/5	7/9	1/1	3/4
Graham Harrison	5/5	8/9	1/1	4/4
Talmai Morgan	4/5	9/9	1/1	4/4
Christopher Spencer	5/5	7/9	1/1	4/4

None of the Directors have a service contract with the Company.

A Nomination Committee meeting will be held on 15 June 2011. Mr Harrison and Mr Morgan will be put forward for re-election at the forthcoming AGM.

While no formal committee has been appointed to consider the continuation of engagement of the relevant service providers, the whole Board reviews their performance. The Directors are satisfied that the continued appointment of the relevant service providers is in the best interests of the shareholders and the Group.

Corporate Governance Statement (continued)

Board effectiveness (continued)

The holders of the position of the Chairman of the committees referred to above will be reviewed on an annual basis. The membership of these committees and their terms of reference will be kept under review. The performance of the Chairman of the Board will be assessed by another of the independent Directors through discussions with the other Directors.

The Group has appointed M:Communications as public relations consultant and Liberum Capital Limited as corporate broker. Together with these parties, the Investment Manager assists the Board in communicating with the Company's major shareholders.

Chairman

The chairman is responsible for leadership of the board, ensuring its effectiveness on all aspects of its role and setting its agenda. The chairman is also responsible for ensuring that the directors receive accurate, timely and clear information. The chairman should ensure effective communication with shareholders.

Board balance and independence

The board is of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the board's composition can be managed without undue disruption.

Internal controls

The board has applied principle C.2 of the Combined Code by establishing a continuous process for identifying, evaluating and managing the significant risks the group faces. The board regularly reviews the process, which has been in place from the start of the year to the date of approval of this report and which is in accordance with revised guidance on internal control published in October 2005 (the Turnbull Guidance). The board is responsible for the group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In compliance with provision C.2.1 of the Combined Code, the board regularly reviews the effectiveness of the group's system of internal control. The board's monitoring covers all controls, including financial, operational and compliance controls and risk management. It is based principally on reviewing reports from management to consider whether significant risks are identified, evaluated, managed and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. The board has also performed a specific assessment for the purpose of this annual report. This assessment considers all significant aspects of internal control arising during the period covered by the report including the work of internal audit. The audit committee assists the board in discharging its review responsibilities.

During the course of its review of the system of internal control, the board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Investment management is provided by Cheyne Capital Management (UK) LLP. The Board is responsible for setting the overall investment policy and monitors the actions of the Investment Manager at regular Board meetings. Administration and Group secretarial services were provided by Kleinwort Benson (Channel Islands) Fund Services Limited until 8 March 2011. From 8 March 2011, State Street (Guernsey) Limited was appointed Administrator and provides all administration and secretarial services to the Group in this capacity. Custody of assets is undertaken by State Street Custodial Services (Ireland) Limited. Regular compliance reports are received by the Board.

Corporate Governance Statement (continued)

Internal controls (continued)

The Directors of the Group clearly define the duties and responsibilities of their agents and advisers, whose appointments are made by the Board after due consideration. The Board monitors the ongoing performance of such agents and advisers. Each of the above agents and advisers maintain their own systems of internal control on which they report to the Board. The systems are designed to ensure effectiveness and efficient operation, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows, therefore, that the systems of internal control can only provide reasonable but not absolute assurance against the risk of material misstatement or loss.

Directors' Remuneration Report

Each of the Directors has signed a letter of appointment with the Group setting out the terms of their appointment. The Chairman receives an annual fee of Euro 120,000 and each of Mr Morgan, Mr Spencer, Mr Harrison and Mr Hawkins receive an annual fee of Euro 30,000, in each case payable quarterly in equal instalments in arrears. Each of the Directors, with the exception of Mr Chandos, received an additional Euro 5,000 in relation to the Placing and Open Offer.

The Company has not established a Remuneration Committee as the Company does not have any executive Directors or employees. The total amounts for the Directors' remuneration for the year were as follows:

	Year ended 31 March 2011 Euro	**Year ended 31 March 2010 Euro**
Tom Chandos	120,000	120,000
Graham Harrison	35,000	30,000
John Hawkins	35,000	30,000
Talmai Morgan	35,000	30,000
Christopher Spencer	35,000	30,000
Total Directors' emoluments	260,000	240,000

During the year, Talmai Morgan and Graham Harrison each received Euro 12,500 (2010: Euro 12,500) in their capacity as Directors of Trebuchet Finance Limited.

Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs). Under company law the directors must not approve the accounts unless they are satisfied that they 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 these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in Guernsey and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors′ Responsibility Statement

We confirm that to the best of our knowledge:

1. The consolidated financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and

2. The Chairman's Statement and the Investment Manager's Report include a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

Christopher Spencer	**Graham Harrison**
Director	**Director**

15 June 2011

Independent Auditor's report to the members of Real Estate Credit Investments Limited

We have audited the consolidated financial statements of Real Estate Credit Investments Limited (the "financial statements") for the year ended 31 March 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and related Notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS").

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Emphasis of matter- valuation of the Group's investments
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in notes 2 and 3 to the financial statements, which describe the policies adopted by the directors for fair valuing the Group's investments. In accordance with this policy and the requirements of International Accounting Standard 39, 'Financial Instruments: Recognition and Measurement', the Directors have estimated the fair value of the Group's investments in residual income positions at Euro 53,460,387 as at 31 March 2011.

As described in notes 2 and 3 of the financial statements, the Group's investments in residual income positions are illiquid. As a result of this, fair value estimates included in the financial statements are subject to considerable uncertainty. Different assumptions will impact the measurement of the investments which may have an effect on the financial statements. It is not possible to quantify the potential effects of the resolution of this uncertainty.

continued on next page/

Independent Auditor's report to the members of Real Estate Credit Investments Limited (continued)

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Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code for our review.

John Clacy FCA
For and on behalf of Deloitte LLP
Chartered Accountants and Recognised Auditor
Guernsey, Channel Islands

15 June 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2011

	Note	Year ended 31 March 2011 Euro	Year ended 31 March 2010 Euro
Interest income	5	15,683,276	16,125,956
Gains and losses on financial assets and liabilities at fair value through profit or loss	4	5,365,581	(9,608,632)
		21,048,857	6,517,324
Operating expenses	7	(4,070,576)	(3,700,373)
Profit before finance costs		16,978,281	2,816,951
Finance costs	5	(1,329,069)	(545,909)
Net profit		**15,649,212**	**2,271,042**
Profit per Ordinary Share			
Basic	9	Euro 0.46	Euro 0.09
Diluted	9	Euro 0.46	Euro 0.09
Weighted average Ordinary Shares outstanding		**Number**	**Number**
Basic	9	33,835,064	26,644,657
Diluted	9	33,835,064	26,644,657

All items in the above statement are derived from continuing operations.

All income is attributable to the Ordinary Shareholders of the Company.

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 March 2011

	Note	31 March 2011 Euro	31 March 2010 Euro
Non-current assets			
Investments at fair value through profit or loss	6,11	124,154,185	91,568,184
		124,154,185	91,568,184
Current assets			
Cash and cash equivalents		6,681,974	15,718,951
Derivative financial assets - options held for trading	6,11	1,307,708	301,610
Derivative financial assets - unrealised gain on interest rate swap agreements	6,13	184,968	2,421,883
Other assets	12	2,576,332	1,376,852
		10,750,982	19,819,296
Total assets		**134,905,167**	**111,387,480**
Equity and liabilities			
Equity			
Reserves	19	76,593,705	99,329,841
		76,593,705	99,329,841
Current liabilities			
Distribution payable	8	639,472	2,131,573
Derivative financial liabilities – options held for trading	6,11	237,249	51,310
Derivative financial liabilities - unrealised loss on forward foreign exchange contracts	6,13	92,684	-
Other liabilities	17	2,177,409	1,231,789
		3,146,814	3,414,672
Non-current liabilities			
Preference Shares	18	55,164,648	-
Loans	14	-	8,642,967
Total liabilities		58,311,462	12,057,639
Total equity and liabilities		**134,905,167**	**111,387,480**

The accompanying notes form an integral part of the consolidated financial statements.

These financial statements were approved by the Board of Directors on 15 June 2011.

Signed on behalf of the Board of Directors by:

Christopher Spencer
Director

Graham Harrison
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2011

	Note	Share Capital Euro	Reserves Euro	Total Euro
Balance at 31 March 2009		**-**	**105,585,091**	**105,585,091**
Net profit for the year		-	2,271,042	2,271,042
Distribution to the Ordinary Shareholders of the Company	8	-	(8,526,292)	(8,526,292)
Balance at 31 March 2010		**-**	**99,329,841**	**99,329,841**
Net profit for the year		-	15,649,212	15,649,212
Issue of Ordinary Shares of the Company	19	-	26,644,656	26,644,656
Issue of Preference Shares of the Company	19	-	(57,665,484)	(57,665,484)
Share issuance expenses allocated to the Ordinary Shareholders	19	-	(730,000)	(730,000)
Distribution to the Ordinary Shareholders of the Company	8	-	(6,634,520)	(6,634,520)
Balance at 31 March 2011		**-**	**76,593,705**	**76,593,705**

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2011

	Note	Year ended 31 March 2011 Euro	Year ended 31 March 2010 Euro
Net cash (outflow)/inflow from operating activities	20	(16,842,622)	26,257,174
Financing activities			
Net repayment of borrowings from loans	14, 22	(8,642,967)	(20,863,072)
Issue of Ordinary Shares	18	26,644,656	-
Share issuance expenses	18	(2,082,602)	-
Dividends paid to shareholders	8	(8,126,621)	(8,526,292)
Cash flows from financing activities		7,792,466	(29,389,364)
Net decrease in cash		(9,050,156)	(3,132,190)
Reconciliation of net cash flow to movement in net cash			
Net decrease in cash and cash equivalents		(9,050,156)	(3,132,190)
Cash and cash equivalents at start of year		15,718,951	18,661,098
Effect of exchange rate fluctuations on cash and cash equivalents		13,179	190,043
Cash and cash equivalents at end of year		6,681,974	15,718,951

The accompanying notes form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements
For the year ended 31 March 2011

1. General information

Queen's Walk Investment Limited was registered on 6 September 2005 with registered number 43634 and is domiciled in Guernsey, Channel Islands. On 17 September 2010, the Company changed its name to Real Estate Credit Investments Limited (the "Company"). The Company commenced its operations on 8 December 2005. The Company is an authorised closed-ended investment company with limited liability formed under The Companies (Guernsey) Law, 2008. Its Ordinary Shares have a premium listing on the London Stock Exchange and its Preference Shares have a standard listing. The registered office of the Company is First Floor Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 6HJ, Channel Islands. "Group" is defined as the Company and its subsidiary. At 31 March 2011, the Company's only subsidiary was Trebuchet Finance Limited.

The investment objective of Queen's Walk Investment Limited was to preserve capital and provide stable returns to Shareholders in the form of quarterly dividends. It sought to achieve this by investing primarily in a diversified portfolio of tranches of asset-backed securities ("ABS") where the Investment Manager considered that the coupon or cash flows on the tranche were attractive relative to the underlying credit. These were, in most cases, below investment grade or unrated and in many cases, represented the residual income positions typically retained by the originator of a securitisation transaction as the "equity" or "first loss" position.

Following the approval of the Placing and Open Offer, the Group changed its investment objective to provide Ordinary Shareholders with a levered exposure to a diversified and amortising portfolio of Residual Income Positions and a growing portfolio of Real Estate Debt Investments and to provide Preference Shareholders with stable returns in the form of quarterly dividends. The Group will seek to achieve this objective by investing primarily in debt secured by commercial or residential properties in Western Europe and the United Kingdom ("Real Estate Debt Investments"). The Real Estate Debt Investments may take different forms but will likely be: (i) securitised tranches of secured real estate related debt securities; and (ii) secured real estate loans, debentures or any other form of debt instrument. At least 70% of the net asset value of the Group will be invested in Real Estate Debt Investments.

The Group's investment management activities are managed by its Investment Manager, Cheyne Capital Management (UK) LLP (the "Investment Manager"), an investment management firm authorised and regulated by the Financial Services Authority. The Group has entered into an Investment Management Agreement (the "Investment Management Agreement") under which the Investment Manager manages its day-to-day investment operations, subject to the supervision of the Company's Board of Directors. The Group has no direct employees. For its services, the Investment Manager receives a monthly management fee (which includes a reimbursement of expenses) and a quarterly performance-related fee. The Group has no ownership interest in the Investment Manager. The Company was administered by Kleinwort Benson (Channel Islands) Fund Services Limited until 8 March 2011. From 8 March 2011, State Street (Guernsey) Limited was appointed Administrator and provides all administration and secretarial services to the Group in this capacity.

2. Significant accounting policies

Statement of compliance
The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board ("the IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ("IASC") that remain in effect, together with applicable legal and regulatory requirements of Guernsey Law and the Listing Rules of the UK Listing Authority.

2. Significant accounting policies (continued)

New standards and interpretations not adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, but are currently not relevant to the Group. None of these are expected to have a significant effect on the measurement of the amounts recognised in the financial statements of the Group. However, IFRS 9 "Financial Instruments" issued in November 2009 (IFRS 9 (2009)) will change the classification of financial assets.

IFRS 9 (2009) deals with classification and measurement of financial assets and its requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: at amortised cost and fair value. A financial asset is to be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are to be measured at fair value. The standard eliminates the existing IAS 39 categories of "held to maturity", "available for sale" and "loans and receivables".

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income are to be measured at fair value with changes in fair value recognised in the Statement of Comprehensive Income.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

The standard is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted, but has not yet been approved by the EU. The Group does not plan to early adopt this standard.

The standard is not expected to have an impact on the measurement basis of the financial assets since the majority of the Group's financial assets are measured at fair value through profit or loss.

Basis of preparation
The consolidated financial statements of the Group are prepared under International Financial Reporting Standards on the historical cost or amortised cost basis modified by the following assets and liabilities which are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified or designated at fair value through profit or loss.

The Directors believe it is appropriate to adopt the going concern basis in preparing the consolidated financial statements as, after due consideration, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Regarding the ongoing funding (per Note 18) the Directors have taken into account the current cash balance, the forecast cash inflows and outflows from the investments and operating expenses. On 6 April 2010, the Company paid back the remaining EUR 8,642,967 of the loan facility and all interest due, terminating any further liabilities under the loan facility. In addition, the Directors note the cash resources available at 31 March 2011 (EUR 6.68m), some of which will be used to pay the proposed dividend, are sufficient to cover normal operational costs and current liabilities.

These consolidated financial statements are presented in Euro because that is the currency of the primary economic environment in which the Group operates. The functional currency of the Group is also considered to be Euro.

2. Significant accounting policies (continued)

Basis of consolidation
Subsidiaries are entities controlled by the Company (Note 10). The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. At 31 March 2011, the Group is made up of the Company and its only subsidiary, Trebuchet Finance Limited. In accordance with the Standing Interpretations Committee Interpretation 12 "Consolidation-Special Purpose Entities" ("SIC 12"), the Company consolidates only entities over which control is indicated by activities, decision making, benefits and residual risks of ownership. In accordance with SIC 12 the Company does not consolidate an SPE in which it holds less than a substantial interest in the residual income position. Where it holds more than a substantial interest, it does not consolidate the SPE where the residual income position represents only a small part of the gross assets of the SPE and the Company was neither involved in the establishment of the SPE or the origination of the assets owned by the SPE, on the basis that the Company is not exposed to the majority of the risks and benefits of the assets owned by the SPE, provided control is not otherwise indicated by the Company's activities, decision making, benefits and residual risks or ownership.

Trebuchet Finance Limited, the Company's only subsidiary, is an SPE over which the Company exercises control and its financial statements are therefore included in the consolidated financial statements of the Group. The Company does not consolidate any of the SPEs in which it holds a residual income position as it is not exposed to the majority of the risks and benefits of the assets owned by the relevant SPEs and does not control any of them.

Investments
Investments in residual interests and real estate debt bonds are recognised initially at their acquisition cost (being fair value at acquisition date) as debt securities. Thereafter they are re-measured at fair value and are designated as fair value through profit or loss investments in accordance with the Amendment to International Accounting Standard 39 ("IAS 39") Financial Instruments: Recognition and Measurement-The Fair Value Option, as the Group is an investment group whose business is investing in financial assets with a view to profiting from their total return in the form of interest and changes in fair value.

Financial assets classified as at fair value through profit or loss are recognised/derecognised by the Group on the date it commits to purchase/sell the investments in regular way trades.

Cash and cash equivalents
Cash and cash equivalents includes amounts held in interest bearing accounts and overdraft facilities with original maturities of less than three months.

Derivative financial instruments
Derivative financial instruments used by the Group to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities that do not qualify for hedge accounting are accounted for as held for trading instruments. Derivative financial instruments are recognised initially at fair value.

Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Consolidated Statement of Comprehensive Income.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties as at the Statement of Financial Position date.

The fair value of options is their quoted market price at the reporting date. Broker marks are obtained for these positions. The change in value is recorded in net gains/(losses) in the Consolidated Statement of Comprehensive Income. Realised gains and losses are recognised on the expiry or sale of the option.

2. Significant accounting policies (continued)

Derivative financial instruments (continued)
The fair value of an open forward foreign currency exchange contract is calculated as the difference between the contracted rate and the current forward rate that would close out the contract on the reporting date. The change in value is recorded in net gains/(losses) in the Consolidated Statement of Comprehensive Income. Realised gains and losses are recognised on the maturity of a contract, or when the contract is closed out and they are transferred to realised gains or losses in the Consolidated Statement of Comprehensive Income.

Fair value
All financial assets carried at fair value are initially recognised at fair value and subsequently re-measured at fair value based on bid prices, where such bids are available from a third party in a liquid market. If bid prices are unavailable, the fair value of the financial asset is estimated by reference to market information which includes but is not limited to broker marks, prices of comparable assets and using pricing models incorporating discounted cash flow techniques.

These pricing models apply assumptions regarding asset-specific factors and economic conditions generally, including delinquency rates, severity rates, prepayment rates, default rates, maturity profiles, interest rates and other factors that may be relevant to each financial asset. The objective of a fair value measurement is to determine the price at which an orderly transaction would take place between market participants on the measurement date; rather than the price arrived at in a forced liquidation or distressed sale. Where the Group has considered all available information and there is evidence that the transaction was forced, it will not use such a transaction price as being determinative of fair value.

With regard to residual income positions, historical performance and observable market data is analysed to determine the average level of these factors and their volatility over time. These assumptions are typically derived by reference to the historical delinquencies, defaults, recoveries and prepayments actually realised by the originator of the underlying assets and any empirical data that may be available in respect of any of these factors for the particular asset class.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported within assets and liabilities when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derecognition of a financial assets and liabilities
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to the contractual cash flows on the financial asset in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred and the transfer qualifies for derecognition in accordance with IAS 39. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. Gains or losses on derecognition are calculated on an average cost basis.

Interest-bearing loans and borrowings
Interest-bearing borrowings are recognised initially at fair value. Transaction costs are expensed in the Consolidated Statement of Comprehensive Income. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Consolidated Statement of Comprehensive Income using the effective interest rate method. Financing costs associated with the issuance of financings are recognised in the Consolidated Statement of Comprehensive Income using the effective interest rate method.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2011

2. Significant accounting policies (continued)

Preference Shares

The Company has made a bonus issue to ordinary shareholders of preference shares. The value of the preference shares represent an obligation on the Group to pay the preference shares Notional Value on winding up of the Group or on redemption of the Preference Shares in accordance with their terms. The fair value of the preference shares amounts to the Notional Value of the Preference Shares translated into the functional currency of the Group on the day of issuance, less the costs arising from the issue of these shares. Subsequent to initial measurement, the Preference Shares are remeasured at amortised cost using the effective interest rate method over the life of the Preference Shares of seven years.

The Preference Shares have been classified as non-current liabilities in these financial statements. The amortisation of the Preference Shares will be treated as a finance cost through the Consolidated Statement of Comprehensive Income. The Preference Shareholders are entitled to a Preference Dividend equal to 8% per annum of the preference share Notional Value. The Preference Dividend will be accrued at each valuation point and paid quarterly. Dividends owing to Preference Shareholders are shown as a Finance Cost in the Condensed Consolidated Statement of Comprehensive Income on an accrual basis.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Consolidated Statement of Financial Position date are translated to Euro at the foreign exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in gains and losses on financial assets and liabilities at fair value through profit or loss in the Consolidated Statement of Comprehensive Income. Foreign currency denominated non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euro at foreign exchange rates ruling at the reporting date. Differences arising on translation of these non-monetary assets and liabilities between valuation points are recognised in the Consolidated Statement of Comprehensive Income.

Expenses attributable to the Placing and Open Offer and the Bonus Issue

The expenses of the Company attributable to the Placing and Open Offer and the Bonus Issue are those which are necessary to implement the Placing and Open Offer and the Bonus Issue. Such expenses include registration, listing and admission fees, corporate finance fees, printing, advertising and distribution costs, legal fees and other applicable expenses.

These expenses have been allocated to the ordinary and preference shareholders based on a pro-rata allocation. Expenses attributable to the ordinary shareholders have been expensed as incurred and are included as a reduction to Reserves in the Consolidated Statement of Changes in Equity. Expenses attributable to the preference shareholders will be amortised over the life of the preference shares of seven years and the amortisation is included in Finance Costs in the Consolidated Statement of Comprehensive Income.

Interest income

Interest income is accrued over the projected lives of the investments using the effective interest method as defined under International Accounting Standard 39. Where the Group adjusts its expected cash flow projections to take account of any change in underlying assumptions, such adjustments are recognised in Interest Income in the Consolidated Statement of Comprehensive Income by reflecting changes in a revised amortised cost value of the investment calculated using the original effective interest rate and applying the original effective interest rate to this revised amortised cost value for the purposes of calculating future income.

Expenses

All expenses are included in the Consolidated Statement of Comprehensive Income on an accruals basis.

2. Significant accounting policies (continued)

Taxation

The Company is a tax-exempt Guernsey limited company. Accordingly, no provision for income tax is made. Trebuchet Finance Limited is a "qualifying company" within the meaning of Section 110 of the Irish Taxes Consolidation Act, 1997 and accordingly its taxable profits are subject to tax at a rate of 25 per cent. Payments under the Participation Note are paid gross to the Company and the income portion of such payments is tax deductible by Trebuchet Finance Limited.

Consequently, Trebuchet Finance Limited has a minimal amount of taxable income. The activities of Trebuchet Finance Limited are exempt for Irish Value Added Tax (VAT) purposes under the Irish VAT Act of 1972.

Liabilities relating to uncertain tax positions are accrued only when such liabilities are probable and can be estimated with reasonable accuracy.

Other receivables

Other receivables do not carry any interest and are short-term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liabilities and equity

Financial liabilities and equity 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. Financial liabilities and equity are recorded at the proceeds received, net of issue costs. The Ordinary Shares of the Company have been classified as equity and the Preference Shares of the Company have been classified as liabilities.

Other accruals and payables

Other accruals and payables are not interest-bearing and are stated at their accrued value.

Segment information

For management purposes, the Group is organised into two main operating segments, which invest in 1) Real Estate Debt and 2) in Residual Income Positions. Each segment engages in separate business activities and the results of each segment are regularly reviewed by the Board of Directors who have assumed the role of Chief Operating Decision Maker for performance assessment purposes.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group’s accounting policies (described in Note 2 above), the Group has determined that the following judgements and estimates have the most significant effect on the amounts recognised in the consolidated financial statements:

Income recognition of residual income positions and bonds

The Group invests in real estate debt and a diversified portfolio of residual income positions, being the subordinated tranches of asset-backed securities (“ABS”) and bonds. The Group follows a policy of accounting for such investments and bonds 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 IAS 18 “Revenue” and in accordance with IAS 39.

ABS are securities that are typically backed by consumer finance receivables (such as mortgage loans) and commercial loans and receivables (including commercial mortgage loans and loans to small-and-medium sized enterprises).

Residual income positions are typically unrated or rated below investment grade and are often referred to as the “equity” or “first loss” position of a securitisation transaction.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Income recognition of residual income positions and bonds (continued)
Unlike a more conventional debt instrument and the more senior tranches of ABS (real estate debt, which generally hold the rights to fixed levels of income), the cash flow profile of a residual income position does not generally 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 a significant element of principal repayment as well as income payments.

Where the cash payments generated by residual income positions do not typically follow the pattern of a standard cash-pay debt instrument (in that there is not a constant level of income in each period followed by a repayment of the principal amount at maturity), a given cash payment received in respect of a residual income position can generally be considered to represent 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 amortised value of a residual income position at any given measurement date after the Group's initial acquisition of the asset reflects repayments of principal in accordance with the effective interest method. This revised amortised value (adjusted to account for the accrual of interest and principal paydowns) is subject to further adjustment on the basis of market conditions and other factors that are likely to affect the fair value of the asset.

Where actual performance data or expectations regarding defaults, delinquencies and prepayments received in respect of a given asset is notably different from the default, delinquency and prepayment assumptions incorporated in the pricing model for the asset, the assumptions are revised to reflect this data and the pricing model is updated accordingly. In addition to the actual performance data observed in respect of a particular asset, market factors are also taken into account within the model.

Broker marks (where available) and any other available indicators are assessed to determine whether or not the market is attributing higher or lower default, delinquency or prepayment expectations to similar assets in determining whether or not the assumptions incorporated in the pricing model remain reasonable.

Interest income is recorded based on the original EIR calculated on acquisition for each individual residual income position and bond. Where there is a carry value reduction driven by lower cashflow expectations, interest income will be reduced as it reflects the reduced cashflow expectations.

Valuation of investments
The market for 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 Group's accounting policies, the fair value of financial assets is based on quoted bid prices where such bids are available from a third party in a liquid market. At 31 March 2011 quoted bid prices were not available for any of the Group's residual portfolio investments.

As quoted bid prices are unavailable, the fair value of the residual income positions is estimated by reference to market information, which includes but is not limited to broker marks, prices of comparable assets, estimated fair value from the previous period updated for current period cash flows and a pricing model, that incorporates discounted cash flow techniques as required by IAS 39. The Group may use all or a combination of the prices from these sources in estimating the fair value of the investments.

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Valuation of investments (continued)
Broker marks are estimates of values provided by market participants who are typically the originators of the investments. The Company uses Markit to value its real estate debt bonds. Broker marks are not binding prices and there is no guarantee that the Group could transact at these prices. Due to the current market conditions, the Group has relied on pricing models to fair value its investments in residual income positions as broker marks have become less reliable or are not available. The real estate debt bonds have been valued based on broker marks.

The assumptions upon which the pricing models are based are described in Note 2 (*Fair Value*). Any changes to assumptions surrounding the pricing models may result in changes to the fair values of the investments. Such changes in the fair value are reported in the Consolidated Statement of Comprehensive Income following the reassessment of the cash flows discounted at the current discount rate for the investment.

The fair value of the Group's investments is set out in Note 11. Given the number of individual investments and the number of individual parameters used in each pricing model, the Group believes that it would be impractical to disclose the effects of changes to each assumption in respect of each individual investment and this would not provide meaningful additional disclosure. However, general assumptions used in the pricing models are disclosed with sensitivities in Note 15.

4. Gains and losses on financial instruments

The following table details the gains and losses, excluding interest income and finance costs, earned by the Group from financial assets and liabilities during the year:

	Year ended 31 March 2011 Euro	Year ended 31 March 2010 Euro
Net realised gains		
Net realised gains on asset backed securities and bonds	6,363,615	448,834
Net realised losses on options	(762,000)	(429,617)
Net realised gains on swaps	-	29,674
Net realised (losses)/gains on foreign exchange instruments	(1,307,546)	17,059
Net realised gains	4,294,069	65,950
Net movement in unrealised gains/(losses)		
Net unrealised gains/(losses) on investments at fair value through profit or loss	3,741,061	(4,984,421)
Net unrealised losses on interest rate swap agreements	(2,236,915)	(1,090,897)
Net unrealised losses on options	(353,129)	(3,789,307)
Net unrealised gains on foreign exchange bank balances	13,179	190,043
Net unrealised losses on foreign exchange instruments	(92,684)	-
Net movement in unrealised gains/(losses)	1,071,512	(9,674,582)
Net realised and movement in unrealised gains/(losses)	5,365,581	(9,608,632)

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2011

5. Interest income and finance costs

The following table details interest income and finance costs from financial assets and liabilities for the year:

	Year ended 31 March 2011 Euro	Year ended 31 March 2010 Euro
Interest income		
Investments designated at fair value through profit or loss upon initial recognition	15,676,281	16,115,471
Loans and receivables (including cash and cash equivalents)	6,995	10,485
Total interest income	15,683,276	16,125,956
Finance costs:		
Interest on loan	3,492	545,909
Net foreign exchange (gain) on preference shares	(1,234,451)	-
Preference Shares issuance expense amortised	89,615	-
Dividend paid to Preference Shareholders (Note 8)	2,470,413	-
Total finance costs	1,329,069	545,909

6. Categories of financial instruments

The following table details the categories of financial assets and liabilities held by the Group at 31 March:

	31 March 2011 Euro	31 March 2010 Euro
Financial assets designated at fair value through profit or loss:		
Investments	124,154,185	91,568,184
Held for trading:		
Call and put options	1,307,708	301,610
Interest rate swap agreements	184,968	2,421,883
Loans and receivables:		
Cash and cash equivalents	6,681,974	15,718,951
Other assets	2,576,332	1,376,852
Total assets	**134,905,167**	**111,387,480**
Liabilities		
Held for trading:		
Forward foreign exchange contracts	92,684	-
Call and put options	237,249	51,310
Liabilities held at amortised cost:		
Other liabilities	2,816,881	3,363,362
Preference Shares	55,164,648	-
Loans	-	8,642,967
Total liabilities	**58,311,462**	**12,057,639**

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2011

7. Operating expenses

	Note	Year ended 31 March 2011 Euro	Year ended 31 March 2010 Euro
Investment management, custodian and administration fees			
Investment management fee	21	2,051,074	1,766,563
Administration fee	21	197,656	195,211
Custodian fee	21	36,540	36,540
		2,285,270	1,998,314
Other operating expenses			
Audit fees		170,000	170,000
Directors' fees payable to Directors of Real Estate Credit Investments Limited		260,000	240,000
Directors' fees payable to Directors of Trebuchet Finance Limited		25,000	25,000
Legal fees		692,618	600,000
Pricing expenses		95,983	128,220
Other expenses		541,705	538,839
		1,785,306	1,702,059
Total operating expenses		4,070,576	3,700,373

The Group has no employees.

8. Dividends

Ordinary Share Dividends	Year ended 31 March 2011 Euro	Year ended 31 March 2010 Euro
Final dividend for the year ended 31 March 2009	-	2,131,573
First interim dividend for the year ended 31 March 2010	-	2,131,573
Second interim dividend for the year ended 31 March 2010	-	2,131,573
Third interim dividend for the year ended 31 March 2010	-	2,131,573
Final dividend for the year ended 31 March 2010	2,131,573	-
First interim dividend for the year ended 31 March 2011	3,863,475	-
Second interim dividend for the year ended 31 March 2011	639,472	-
Amounts recognised as distributions to equity holders in the year	6,634,520	8,526,292

	Year ended 31 March 2011 Euro per share	Year ended 31 March 2010 Euro per share
Final dividend for the year ended 31 March 2009	-	0.08
First interim dividend for the year ended 31 March 2010	-	0.08
Second interim dividend for the year ended 31 March 2010	-	0.08
Third interim dividend for the year ended 31 March 2010	-	0.08
Final dividend for the year ended 31 March 2010	0.08	-
First interim dividend for the year ended 31 March 2011	0.145	-
Second interim dividend for the year ended 31 March 2011	0.016	-
Amounts recognised as distributions to equity holders in the year	0.241	0.32

8. Dividends (continued)

The second interim dividend for the year ended 31 March 2011 of Euro 0.016 per share was declared on 15 March 2011 and an amount of Euro 639,472 was paid on 26 April 2011.

The final dividend for the year ended 31 March 2011 of Euro 0.014 per share was declared on 16 June 2011 and has not been included as a liability in these consolidated financial statements.

Under Guernsey Law, companies can pay dividends provided they satisfy the solvency test prescribed under The Companies (Guernsey) Law, 2008. The solvency test considers whether a company is able to pay its debts when they become due and whether the value of a company's assets are greater than its liabilities. The Company passed the solvency test for each dividend payment for the year ended 31 March 2011.

Preference Share Dividends
The Preference Shareholders are entitled to a Preference Dividend equal to 8% per annum of the Preference Share Notional Value. The Preference Dividend will be accrued at each valuation point and paid quarterly. Dividends owing to Preference Shareholders are shown as a Finance Cost in the Consolidated Statement of Comprehensive Income on an effective yield basis.

The Preference Dividend in respect of the period from 15 September 2010 (the date when the Preference Shares were issued) to 31 December 2010 amounting to Euro 1,341,031 was paid on 31 December 2010.

The Preference Dividend in respect of the period from 1 January 2011 to 31 March 2011 amounting to Euro 1,129,382 was paid on 31 March 2011.

9. Profit per Ordinary Share

	Year ended 31 March 2011 Euro	**Year ended 31 March 2010 Euro**
The calculation of the basic and diluted earnings per share is based on the following data:		
Profit for the purposes of basic earnings per share being net profit attributable to equity holders	15,649,212	2,271,042
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	33,835,064	26,644,657
Effect of dilutive potential Ordinary Shares:		
Share options	-	-
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	33,835,064	26,644,657

There is no dilution as at 31 March 2011 or 31 March 2010 as the share price was below the option price (see Note 21) on that date.

10. Subsidiary

Trebuchet Finance Limited was incorporated in Ireland on 19 May 2005 and as at 31 March 2011, pursuant to the Articles of Association of Trebuchet Finance Limited, the Group had the right to appoint a majority of the Board of Directors of Trebuchet Finance Limited. As at 31 March 2011, two of the Directors of the Company were Directors of Trebuchet Finance Limited.

To ensure that the Group will be able to maintain a majority of the Board of Directors of Trebuchet Finance Limited in the future, the Company has been allotted a single share in Trebuchet Finance Limited carrying the right to appoint a majority of the Board of Directors. Trebuchet Finance Limited was established for the sole purpose of acquiring and holding interests in certain assets.

11. Investments

The following is a summary of the Group's investments:

	31 March 2011 Euro	31 March 2010 Euro
Residuals and Real Estate Debt Investments at fair value through profit or loss	124,154,185	91,568,184
Options purchased held for trading	1,307,708	301,610
Options written held for trading	(237,249)	(51,310)
Total options at fair value	1,070,459	250,300
	125,224,644	91,818,484

Residuals and Real Estate Debt Investments	31 March 2011 Euro	31 March 2010 Euro
Opening cost	238,331,927	250,110,675
Purchases	61,339,613	12,415,474
Sales proceeds	(27,498,151)	(14,166,837)
Realised gain on sales	6,363,615	448,834
Cash receipts on investments	(11,360,137)	(10,476,219)
Closing cost	267,176,867	238,331,927
Cumulative unrealised losses	(143,022,682)	(146,763,743)
Asset-backed securities and bonds at fair value	124,154,185	91,568,184

The following options contracts were open as at 31 March 2011:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Fair Value Euro
JP Morgan	31 Dec 2011	EUR Call GBP Put	Euro	14,000,000	EUR 0.9315	242,382
Goldman Sachs	31 Dec 2011	EUR Call GBP Put	GBP	14,000,000	EUR 1.300	411
Goldman Sachs	18 Sep 2017	EUR Put GBP Call	GBP	12,500,000	EUR 0.8333	1,064,915
Options purchased at fair value						1,307,708
JP Morgan	31 Dec 2011	EUR Call GBP Put (Written option)	Euro	14,000,000	EUR 1.300	(406)
Goldman Sachs	31 Dec 2011	EUR Call GBP Put (Written option)	GBP	14,000,000	EUR 0.9315	(236,843)
Options written at fair value						(237,249)

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2011

11. Investments (continued)

The following options contracts were open as at 31 March 2010:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Fair Value Euro
Goldman Sachs	29 Dec 2010*	EUR Call GBP Put	Euro	10,000,000	EUR 0.9315	301,610
Options purchased at fair value						301,610
Goldman Sachs	29 Dec 2010	EUR Call GBP Put (Written option)	Euro	10,000,000	EUR 1.300	(51,310)
Options written at fair value						(51,310)

*On 6 April 2010, the Group extended the maturity to 31 December 2011.

12. Other assets

	31 March 2011 Euro	31 March 2010 Euro
Interest receivable on investment portfolio	1,765,834	877,917
Lehman claim*	-	328,230
Receivable for investments sold	557,572	-
Interest receivable on cash and cash equivalents	252,926	170,705
	2,576,332	1,376,852

* Since 31 March 2010, the Lehman claim was sold for Euro 328,230.

The Directors consider that the carrying amounts of other assets approximate their recoverable amounts.

13. Derivative contracts

The following forward foreign exchange contracts were unsettled at 31 March 2011 (2010: nil).

Settlement Date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised (Loss) Euro
30 June, 2011	GBP	4,500,000	EUR	5,178,366	(92,684)

The following interest rate and balance guaranteed interest rate swaps were unsettled at 31 March 2011 and 2010.

31 March 2011

Termination Date	Counterparty	Initial Notional Amount (GBP)	Unrealised Gain/(Loss) Euro
25 January, 2013	Goldman Sachs	451,431	9,887
15 October, 2011	Goldman Sachs	5,500,000	56,211
15 November, 2011	Goldman Sachs	1,300,000	12,508
25 January, 2013	Goldman Sachs	1,226,713	50,900
15 October, 2011	Goldman Sachs	2,800,000	38,980
12 September, 2011	Goldman Sachs	1,700,000	16,482
			184,968

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2011

13. Derivative contracts (continued)

31 March 2010

Termination Date	Counterparty	Initial Notional Amount (GBP)	Unrealised Gain/(Loss) Euro
25 January, 2013	Goldman Sachs	451,431	21,760
15 October, 2011	Goldman Sachs	5,500,000	163,068
15 November, 2011	Goldman Sachs	1,300,000	37,473
25 January, 2013	Goldman Sachs	1,226,713	65,943
15 October, 2011	Goldman Sachs	3,000,000	88,536
12 September, 2011	Goldman Sachs	1,700,000	45,234
27 March, 2011	Goldman Sachs	17,348,100	642,940
15 January, 2011	Goldman Sachs	9,700,584	330,394
15 February, 2011	Goldman Sachs	27,568,395	1,026,535
			2,421,883

14. Loans

	31 March 2011 Euro	31 March 2010 Euro
Loans	-	8,642,967

On 6 April 2010 the Company paid back the remaining EUR 8,642,967 and all interest due, terminating any further liabilities under the loan facility.

15. Financial instruments

The Group's investment activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. The Group's risk management policies seek to minimise the potential adverse effects of these risks on the Group's financial performance.

The principal risks to which the Group is exposed are market price risk, interest rate risk, liquidity risk, currency risk, credit risk, prepayment and re-investment risk and residual interest risk. In certain instances as described more fully below, the Group enters into derivative transactions in order to help mitigate particular types of risk. Save where the Group enters into swap arrangements to gain exposure to an underlying cash asset or assets, or to comply with asset transfer restrictions or similar legal restrictions which prevent the Group from owning a target investment directly, derivative transactions are only used for the purpose of efficient portfolio management.

(a) Market risk

Market risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises of interest rate risk, currency risk and other price risk.

The Group's strategy on the management of market risk is driven by the Group's investment objective detailed in Note 1 which is to aim to provide Ordinary Shareholders with a levered exposure to a diversified and amortising portfolio of Residual Income Positions and a growing portfolio of Real Estate Debt Investments and to provide Preference Shareholders with stable returns in the form of quarterly dividends.

The Group's market risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed below.

15. Financial instruments (continued)

(a) Market risk (continued)

The sensitivity analysis below is based on a change in one variable while holding all other variables constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in foreign currency rate and change in market values. In addition, as the sensitivity analysis uses historical data as a basis for determining future events, it does not encompass all possible scenarios, particularly those that are of an extreme nature.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to currency risk to the extent that foreign exchange rates fluctuate and has financial instruments that are denominated in currencies other than the Euro.

The Group has elected to hedge its FX exposure through a mixture of currency options and forward foreign currency exchange contracts. These instruments are detailed in Note 11 and Note 13.

The currency profile, including derivatives, at 31 March 2011 was as follows:

	Total (in Euro)	Monetary Assets (in Euro)	Non-Monetary Assets (in Euro)	Monetary Liabilities (in Euro)	Non-Monetary Liabilities (in Euro)
Euro	84,944,880	90,868,081	2,072,452	(5,178,772)	(2,816,881)
GBP	(8,375,965)	46,521,642	541,692	(55,401,491)	(37,808)
USD	24,790	24,790	-	-	-
	76,593,705	137,414,513	2,614,144	(60,580,263)	(2,854,689)

The currency profile, including derivatives, at 31 March 2010 was as follows:

	Total (in Euro)	Monetary Assets (in Euro)	Non-Monetary Assets (in Euro)	Monetary Liabilities (in Euro)	Non-Monetary Liabilities (in Euro)
Euro	80,643,776	91,073,549	1,627,866	(8,694,277)	(3,363,362)
GBP	18,656,098	18,605,502	50,596	-	-
USD	29,967	29,967	-	-	-
	99,329,841	109,709,018	1,678,462	(8,694,277)	(3,363,362)

At 31 March 2011, had the Euro strengthened by 5% in relation to all currencies, with all other variables held constant, equity of the Group and net gain per the Consolidated Statement of Comprehensive Income would have changed by the amounts shown below. The analysis is performed on the same basis for 2010.

	31 March 2011 Euro	31 March 2010 Euro
British Pound	(263,755)	(888,386)
United States Dollar	(1,181)	(1,427)
Total	(264,936)	(889,813)

A 5% weakening of the Euro against the above currencies would have resulted in an almost equal but opposite effect on the equity of the Group and net gain per the Consolidated Statement of Comprehensive Income to the amounts shown above, on the basis that all other variables remained constant.

15. Financial instruments (continued)

(a) Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value and future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk is managed by the Investment Manager in accordance with policies and procedures detailed below.

The Group is primarily exposed to interest rate risk through its cash balances and investments. The investment portfolio is exposed to interest rate risk because changes in interest rates may have an effect on the prepayments and defaults on the underlying loans on the securitisations. These specific risks are discussed separately in Notes 15 (e) and 15 (f). The direct interest rate risk of the investment portfolio is minimal as the Group's investments comprise of equity positions in securitisation transactions. Due to the nature of the securitisations, the liabilities are matched to the underlying collateral and, in the significant majority of instances, the margin on the liabilities are fixed. The cash flows from the residual investments are not directly affected by changes in market interest rates because interest rate movements on loans underlying the residual investments are offset by equal interest rate movements on the more senior tranches of the residual investments.

The underlying loans of the asset backed securities may be subject to interest rate exposure; as the majority of the underlying mortgage loans are floating rate and reprice in the short term, i.e. no longer than twelve months. Accordingly, the Group would be subject to limited exposure to fair value or cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates. Exposure to fixed rate loans are hedged using interest rate swaps.

The preference shareholders are entitled to receive a preference dividend amounting to 8% per annum of the Preference Share Notional Value. As the rate is fixed, the exposure to interest rate risk is limited.

In addition, the Group is subject to interest rate risk on cash of Euro 6,681,974 (31 March 2010: Euro 15,718,951). The effect of changes in interest rates on cash would have an immaterial effect on the net profit per the Consolidated Statement of Comprehensive Income and the equity of the Group.

The interest rate profile at 31 March 2011 was as follows:

	Fixed Euro	Floating Euro	Non-interest bearing Euro
Investments at fair value through profit or loss	-	124,154,185	-
Derivative financial assets - options	-	-	1,307,708
Derivative financial assets - interest rate swap agreements	-	-	184,968
Cash and cash equivalents	-	6,681,974	-
Other assets	-	-	2,576,332
Preference shares	(55,164,648)	-	-
Derivative financial liabilities - forward foreign exchange contracts	-	-	(92,684)
Derivative financial liabilities – options	-	-	(237,249)
Other liabilities	-	-	(2,816,881)
Total	(55,164,648)	130,836,159	922,194

15. Financial instruments (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The interest rate profile at 31 March 2010 was as follows:

	Fixed Euro	Floating Euro	Non-interest bearing Euro
Investments at fair value through profit or loss	-	91,568,184	-
Derivative financial assets - options	-	-	301,610
Derivative financial assets - interest rate swap agreements	-	-	2,421,883
Cash and cash equivalents	-	15,718,951	-
Other assets	-	-	1,376,852
Loans	-	(8,642,967)	-
Derivative financial liabilities – options	-	-	(51,310)
Other liabilities	-	-	(3,363,362)
Total	-	98,644,168	685,673

Although investments in residual income positions have been treated as floating rate investments in the above table, income on these investments is based on the effective interest rate (see Note 2).

The Company is not exposed to fair value interest rate risk because it has no fixed interest rate exposures except for preference shares.

Maturity profile

The maturity profile at 31 March 2011 was as follows:

	Total Euro	Within one year Euro	One to five years Euro	Over five years Euro
Investments at fair value through profit or loss	124,154,185	89,318,575	7,076,198	27,759,412
Derivative financial assets - options	1,307,708	242,793	-	1,064,915
Derivative financial assets - interest rate swap agreements	184,968	124,181	60,787	-
Cash and cash equivalents	6,681,974	6,681,974	-	-
Other assets	2,576,332	2,576,332	-	-
Preference shares	(55,164,648)	-	-	(55,164,648)
Derivative financial liabilities - forward foreign exchange contracts	(92,684)	(92,684)	-	-
Derivative financial liabilities - options	(237,249)	(237,249)	-	-
Other liabilities	(2,816,881)	(2,816,881)	-	-
	76,593,705	95,797,041	7,136,985	(26,340,321)

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2011

15. Financial instruments (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The maturity profile at 31 March 2010 was as follows:

	Total Euro	Within one year Euro	One to five years Euro	Over five years Euro
Investments at fair value through profit or loss	91,568,184	3,412,475	10,080,635	78,075,074
Derivative financial assets - options	301,610	301,610	-	-
Derivative financial assets - interest rate swap agreements	2,421,883	1,999,869	422,014	-
Cash and cash equivalents	15,718,951	15,718,951	-	-
Other assets	1,376,852	1,376,852	-	-
Derivative financial liabilities - options	(51,310	(51,310)	-	-
Loan	(8,642,967)	(8,642,967)	-	-
Other liabilities	(3,363,362)	(3,363,362)	-	-
	99,329,841	10,752,118	10,502,649	78,075,074

The maturity dates for residual income positions have been determined on the basis of the calculated expected cashflows of the relevant transactions.

(iii) Discount rate risk

The value of the asset backed securities will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Group’s financial instruments are carried at fair value with fair value changes recognised in the consolidated statement of comprehensive income, any relevant changes in market conditions will directly affect the change in net assets.

The fair value of the Group’s residual income investments will fluctuate as a result of a change in the discount rate applied when calculating the net present value the investments.

The Group currently applies a discount rate of 15% when valuing the European and UK Mortgages (excluding Sestante) and 20% for the SME portfolios and Sestante. The weighted average discount rate currently applied to the Group’s investment portfolio is approximately 16.91%. A 10% increase in the discount rate would have decreased the equity of the Group and net profit per the Consolidated Statement of Comprehensive Income by Euro 1,927,512 (2010: Euro 2,948,184); an equal change in the opposite direction would have increased net assets.

The Net Asset Value (NAV) per share of the Group using a discount rate of 15% for the European and UK Mortgages and 20% for the SME portfolios is EUR 1.92 (31 March 2010: EUR 3.73). If different discount margin scenarios were applied to the residual assets it would have the following effect on the NAV per share of the Company:

- All assets: 15% IRR: NAV/ share: €2.00 (31 March 2010: €3.84)
- All assets: 20% IRR: NAV/ share: €1.84 (31 March 2009:€3.51)
- European & UK Mortgages 15%, SME 25%: NAV / share: €1.95 (31 March 2010: €3.64)
- European & UK Mortgages 20%, SME 25%: NAV / share: €1.82 (31 March 2009: €3.42).

15. Financial instruments (continued)

(b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Group. Credit risk is generally higher for a non-exchange traded financial instrument because the counterparty for non-exchange traded financial instruments is not backed by an exchange-clearing house.

At 31 March, the Group's financial assets, other than the investment portfolio discussed below, exposed to credit risk, amounted to the following:

	31 March 2011 Euro	31 March 2010 Euro
Cash and cash equivalents	6,681,974	15,718,951
Derivative financial assets – unrealised gain on interest rate swap agreements	184,968	2,421,883
Derivative financial assets – Options purchased held for trading	1,307,708	301,610
Total	8,174,650	18,442,444

The Group is subject to the risk that issuers of asset backed securities in which it invests, including sovereign governments and governmental entities as well as non-governmental entities, may default on their obligations under such instruments and that certain events may occur which have an immediate and significant adverse effect on the value of such instruments. There can be no assurance that an issuer of an instrument in which the Group invests will not default or that an event which has an immediate and significant adverse effect on the value of such instruments will not occur, and that the Group will not sustain a loss on the transaction as a result. The Group seeks to mitigate this risk by monitoring its portfolio of investments, reviewing the underlying credit quality of its counterparties, on a monthly basis.

The effect of credit risk of the investment portfolio and the underlying assets on the Company is set out in Note 15 (e). Otherwise, the Group therefore only has credit exposure on its derivative contracts. At 31 March, the Group was invested in derivative contracts with Goldman Sachs and JP Morgan, counterparties with the following credit quality:

Rating	31 March 2011 Euro	31 March 2010 Euro
Goldman Sachs - A (Derivatives and FX contracts)	1,250,294	2,723,493
JP Morgan – A+ (Derivatives and FX contracts)	242,382	-

The Group is exposed to default risk in relation to the SPVs as discussed further in note 15(f) default and severity rates. The Group has credit exposure to the underlying collateral in the SPV and is detailed below in Note 15 (d), there is no material concentration of credit risk not disclosed in the above table.

Transactions involving derivative financial instruments are usually with counterparties with whom the Group signed master netting agreements. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default. The impact of the master netting agreements is to reduce credit risk from the amounts shown as derivative financial assets on the Consolidated Statement of Financial Position. The credit risk associated with derivative financial assets subject to a master netting arrangement is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realised.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2011

15. Financial instruments (continued)

(b) Credit risk (continued)

The exposure to credit risk reduced by master netting arrangements may change significantly within a short period of time as a result of transactions subject to the arrangement. The corresponding assets and liabilities have not been offset on the Consolidated Statement of Financial Position.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Group monitors the credit rating and financial positions of the brokers used to further mitigate this risk.

The Group monitors its risk by monitoring the credit quality of State Street Custodial Services (Ireland) Limited, as reported by Standard and Poor's or Moody's. If the credit quality or the financial position of State Street Custodial Services (Ireland) Limited deteriorates significantly the Investment Manager will move the Group's assets to another bank. State Street Custodial Services (Ireland) Limited is a State Street Bank and Trust Company. The credit rating of State Street Corporation, the parent company of the Custodian, was A1 at the reporting date.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group's liquidity risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed below. Where needed, the Investment Manager will liquidate positions to increase cash.

The following table details the current and long term financial liabilities at 31 March 2011 analysed by contractual settlement date:

	Less than 1 month Euro	**1-3 months Euro**	**3 months to 1 year Euro**	**Greater than 1 year Euro**
Financial liabilities including derivatives settled net				
Preference Shares	-	-	-	55,164,648
Distribution payable	639,472	-	-	-
Due to related parties	-	198,009	-	-
Payable for investments purchased	-	8,450	-	-
Accrued expenses	-	1,970,950	-	-
Derivatives settled gross				
Derivative financial liabilities - options	-	-	237,249	-
Forward foreign exchange contracts	-	92,684	-	-
	639,472	2,270,093	237,249	55,164,648

15. Financial instruments (continued)

(c) Liquidity risk (continued)

The following table details the current and long term financial liabilities at 31 March 2011 analysed by contractual settlement date:

	Less than 1 month Euro	1-3 months Euro	3 months to 1 year Euro	Greater than 1 year Euro
Financial liabilities including derivatives settled net				
Loans	8,642,967	-	-	-
Distribution payable	2,131,573	-	-	-
Interest payable	-	42,778	-	-
Due to related parties	-	147,854	-	-
Accrued expenses	-	1,041,157	-	-
Derivatives settled gross				
Derivative financial liabilities - options	-	-	51,310	-
	10,774,540	1,231,789	51,310	-

The market for subordinated asset-backed securities, including residual income positions, is illiquid. In addition, investments that the Group 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 Group'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 Group acquires investments for which there is not a readily available market, the Group'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.

(d) Valuation of Financial Instruments

IFRS 7 requires disclosures surrounding the level in the fair value hierarchy in which fair value measurement inputs are categorised for assets and liabilities measured in the Consolidated Statement of Financial Position. The determination of the fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 2, Significant Accounting Policies. For financial instruments that trade infrequently and have little price transparency, fair value is less objective.

The Group categorises investments using the following hierarchy as defined by IFRS 7:

- Level 1 – Quoted market prices in an active market for an identical instrument.
- Level 2 – Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

15. Financial instruments (continued)

(d) Valuation of Financial Instruments (continued)

The following table analyses within the fair value hierarchy the Group's financial assets measured at fair value at 31 March 2011 and 31 March 2010.

31 March 2011	**Level 1 Euro**	**Level 2 Euro**	**Level 3 Euro**	**Total Euro**
Non-current assets				
Investments at fair value through profit or loss	-	70,693,798	53,460,387	124,154,185
Current assets				
Options held for trading	-	1,307,708	-	1,307,708
Interest rate swaps	-	184,968	-	184,968
Current liabilities				
Forward foreign exchange contracts	-	(92,684)	-	(92,684)
Options held for trading	-	(237,249)	-	(237,249)
	-	71,856,541	53,460,387	125,316,928

31 March 2010	**Level 1 Euro**	**Level 2 Euro**	**Level 3 Euro**	**Total Euro**
Non-current assets				
Investments at fair value through profit or loss	-	14,052,447	77,515,737	91,568,184
Current assets				
Options held for trading	-	301,610	-	301,610
Interest rate swaps	-	2,421,883	-	2,421,883
Current liabilities				
Options held for trading		(51,310)	-	(51,310)
	-	16,724,630	77,515,737	94,240,367

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of options is their quoted market price at the reporting date. These are included in Level 2 of the fair value hierarchy.

The fair value of forward contracts is the difference between the contracts price and reported market prices of the underlying contract variables. These are included in Level 2 of the fair value hierarchy.

The fair values of investments at fair value that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include investment-grade corporate bonds (real estate debt instruments) and over-the-counter derivatives.

As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. The Group uses widely recognised valuation models for determining fair values of over-the-counter interest rate swaps. The Group applies valuation techniques including swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and current interest rates.

15. Financial instruments (continued)

(d) Valuation of Financial Instruments (continued)

The fair values of investments in residual income positions, for which there is currently no active market, are calculated using valuation models. The model uses discounted cash flow analysis which incorporates both observable and non-observable data. Observable inputs include broker marks in an active market and prices of comparable assets. Unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts. The fair value of such instruments is included within Level 3. Refer to Note 15 (a), (e), (f) and (g) for details of the significant inputs and assumptions used in determining the fair value of these investments.

There were no transfers between Level 1 and Level 2 or between Level 2 and Level 3 during the year ended 31 March 2011 or during the year ended 31 March 2010.

Level 3 reconciliation
The following table shows a reconciliation of all movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period.

Financial assets designated at fair value through profit or loss	**31 March 2011 Level 3 Euro**	**31 March 2010 Level 3 Euro**
Opening Balance	77,515,737	103,123,597
Total gains and losses recognised in the consolidated statement of comprehensive income for the year	1,330,624	(7,769,899)
Purchases	13,255,880	-
Sales	(36,115,020)	(8,748,702)
Paydowns	(9,023,592)	(14,877,453)
Payups	6,496,758	5,788,194
Closing balance	53,460,387	77,515,737
Unrealised loss on investments classified as Level 3 at year end	**(14,747,925)**	**(12,437,408)**

(e) Prepayment and re-investment risk

The Group's valuations of it Residual Income investments take into account expected levels of prepayment of the loans that collateralise the securitisation transactions in which the Group has purchased the equity positions. The Investment Manager reviews the prepayment assumptions each quarter and will update as required. These assumptions are considered through a review of the underlying loan performance information of the securitisations.

The Group’s investments and the assets that collateralise them may prepay more quickly than expected and have an impact on the value of the Group’s portfolio. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond the Group's control and consequently cannot be predicted with certainty. The level and timing of prepayments made by borrowers in respect of the mortgage loans that collateralise certain of the Group’s investments may have an adverse impact on the income earned by the Group from those investments.

Early prepayments also give rise to increased re-investment risk. If the Group is unable to reinvest such cash in a new investment with an expected rate of return at least equal to that of the loan repaid, Group's net income will be lower and, consequently, could have an adverse impact on the Group's ability to pay dividends.

15. Financial instruments (continued)

(e) Prepayment and re-investment risk (continued)

The Group applied a prepayment rate in the range of 4%-25% (2010: 10%-52.75%). The specific prepayment rate applied will vary depending on the type of loan, its seasoning and market conditions. A 10% increase in the prepayment rates of the securities held would have increased the equity of the Group and increased net profit per the consolidated statement of comprehensive income by Euro 183,525 (2010: increase in equity and increase in net profit of Euro 623,730); an equal change in the opposite direction would have increased the equity of the Group and decreased the net loss for the year by an equal but opposite amount.

(f) Default and severity rates

While the Group's valuations of its Residual Income investments take into account expected levels of default rates and the expected loss given a default (“severity loss rate”), the Group’s residual income investments and the assets that collateralise them may be subject to higher losses through a combination of higher default or severity rates. Default and severity rate risk is managed by the Investment Manager by regular review of the positions held. The Investment Manager reviews these assumptions each quarter and will update as required. These assumptions are considered by reviewing the underlying loan performance information of the securitisations.

As prepayment rates above, default and severity rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond the Group's control and consequently cannot be predicted with certainty. The level and timing of defaults made by borrowers in respect of the mortgage loans that collateralise certain of the Group’s residual income investments may have an adverse impact on the income earned by the Group from those residual income investments. Severity rates are the amounts of expected loss should a borrower default.

The Company applies a default rate in the range of 0.6%-3.5% (2010: 0.4%-4.16%). The specific default rate applied will vary depending on the type of loan, its seasoning and market conditions. A 10% increase in the default rates of the residual income securities held would have decreased the equity of the Group and decreased net profit per the consolidated Statement of Comprehensive Income by Euro 2,620,084 (2010: Euro (2,965,891)); an equal change in the opposite direction would have increased the equity of the Group and increased net profit by an equal but opposite amount.

(g) Residual interest risk

Less than half of the Group's investments consist of interests in and/or economic exposures to limited recourse securities. These interests are subordinated in right of payment and ranked junior to other securities that are secured by or represent ownership of 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 Group. Some of the Group'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 Group anticipates receiving from its investment portfolio, which may lead to the Group having less income to distribute to Shareholders.

The Group does not control the portfolio of assets underlying the ABS in which it invests and relies on the servicers of the ABS to administer and review the portfolios. Particularly, in the case of residual income positions, the actions of the servicer, including its ability to identify and report on issues affecting the portfolio on a timely basis, may affect the Group's return on its investments, in some cases significantly.

15. Financial instruments (continued)

(g) Residual interest risk (continued)

In addition, concentration of a significant number of the Group's investments with one servicer could affect the Group adversely in the event that the servicer fails to fulfil its function effectively or at all. In the event of fraud by any entity in which the Group invests or by other parties involved with the entity, such as servicers or cash managers, the Group may suffer a partial or total loss of the amounts invested in that entity.

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 Group's investments.

16. Segmental Reporting

The Group has adopted IFRS 8 ‘Operating Segments’. The standard requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes.

The Board of Directors is charged with setting the Group’s investment strategy in accordance with the Prospectus. They have delegated the day to day implementation of this strategy to its Investment Manager but retain responsibility to ensure that adequate resources of the Group are directed in accordance with their decisions. The investment decisions of the Investment Manager are reviewed on a regular basis to ensure compliance with the policies and legal responsibilities of the Board. The Investment Manager has been given full authority to act on behalf of the Group, including the authority to purchase and sell securities and other investments on behalf of the Group and to carry out other actions as appropriate to give effect thereto.

Whilst the Investment Manager may make the investment decisions on a day to day basis regarding the allocation of funds to different investments, any changes to the investment strategy or major allocation decisions have to be approved by the Board, even though they may be proposed by the Investment Manager. The Board retains full responsibility as to the major allocation decisions made on an ongoing basis.

The Group has two reportable segments, being the Real Estate Debt Bond Portfolio and the Residuals Income Portfolio. For each of the sub-portfolios, the Board of Directors reviews internal management reports on a quarterly basis. The Chairman’s Statement and Investment Manager’s Report further break down the Residuals Portfolio into European Mortgages, UK Mortgages and SMEs.

Each of these residuals is individually monitored by the Investment Manager and performance analysed separately but all are managed as one sub portfolio. When assets are purchased it does not matter what type of asset it is only whether the asset is suitable for the group’s requirements.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit/loss, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit/loss is used to measure performance as management believes that such information is the most relevant in evaluating the results. Segment information is measured on the same basis as that used in the preparation of the Group’s financial statements.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2011

16. Segmental Reporting (continued)

31 March 2011	Real Estate Debt Bond Portfolio Euro	Residual Income Portfolio Euro	Total Euro
Income			
Interest income	3,728,582	11,954,694	15,683,276
Net gain/(loss) from fair value through profit or loss financial instruments	8,842,251	(974,490)	7,867,761
Reportable segment profit	**12,570,833**	**10,980,204**	**23,551,037**
Assets			
Investments at fair value through profit or loss	70,693,798	53,460,387	124,154,185
Interest receivable	1,270,982	494,852	1,765,834
Derivative financial assets - unrealised gain on interest rate swap agreements	184,968	-	184,968
Reportable segment assets	**72,149,748**	**53,955,239**	**126,104,987**

31 March 2010	Real Estate Debt Bond Portfolio Euro	Residual Income Portfolio Euro	Total Euro
Income			
Interest income	540,933	15,586,023	16,126,956
Net gain/(loss) from fair value through profit or loss financial instruments	3,381,320	(8,978,130)	(5,596,810)
Reportable segment gain	**3,922,253**	**6,607,893**	**10,530,146**
Assets			
Investments at fair value through profit or loss	13,615,233	77,952,951	91,568,184
Interest receivable	50,910	827,007	877,917
Derivative financial assets - unrealised gain on interest rate swap agreements	422,014	1,999,869	2,421,883
Reportable segment assets	**14,088,157**	**80,779,827**	**94,867,984**

There have been no changes to the basis of segmentation or the measurement basis for segment profit or loss since 31 March 2010.

All segment revenues are from external sources. There are no inter-segment transactions between the reportable segments during the year.

Certain income and expenditure is not considered part of the performance of an individual segment. This includes net foreign exchange gains / loss, expenses and interest on borrowings. The following table provides a reconciliation between net reportable income and operating profits.

	31 March 2011 Euro	31 March 2010 Euro
Reportable Segment profit	23,551,037	10,530,146
Net foreign exchange (losses)/gains	(1,387,051)	207,102
Net losses on options	(1,115,129)	(4,218,924)
	21,048,857	**6,517,324**

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2011

16. Segmental Reporting (continued)

	31 March 2011 Euro	31 March 2010 Euro
Expenses	(4,070,576)	(3,700,373)
Finance costs	(1,329,069)	(545,909)
Total profit	**15,649,212**	**2,271,042**

Certain assets and liabilities are not considered to be attributable to a particular segment, these include, other receivables and prepayments, cash and cash equivalents, and derivative financial assets – options held for trading.
The following table provides a reconciliation between net total segment assets and total assets.

	31 March 2011 Euro	31 March 2010 Euro
Total segment assets	126,104,987	94,867,984
Other receivables and prepayments	810,498	498,935
Cash and cash equivalents	6,681,974	15,718,951
Derivative financial assets – options held for trading	1,307,708	301,610
	134,905,167	**111,387,480**

The following is a summary of the movements in the Group's investments analysed by the residual portfolio and the Investment Grade Portfolio:

31 March 2011	Real Estate Debt Bond Portfolio Euro	Residual Income Portfolio Euro	Total Euro
Asset-backed securities			
Opening cost	14,065,417	224,266,510	238,331,927
Purchases	61,339,613	-	61,339,613
Sales proceeds	(14,269,960)	(13,228,191)	(27,498,151)
Realised gain	2,500,029	3,863,586	6,363,615
Cash receipts on investments	(1,428,611)	(9,931,526)	(11,360,137)
Closing cost	62,206,488	204,970,379	267,176,867
Unrealised losses	8,487,310	(151,509,992)	(143,022,682)
Asset-backed securities at fair value	70,693,798	53,460,387	124,154,185

31 March 2010	Real Estate Debt Bond Portfolio Euro	Residual Income Portfolio Euro	Total
Asset-backed securities			
Opening cost	7,229,936	242,880,739	250,110,675
Purchases	12,415,474	-	12,415,474
Sales proceeds	(5,418,136)	(8,748,701)	(14,166,837)
Realised gain/(loss)	1,225,098	(776,264)	448,834
Cash receipts on investments	(1,386,955)	(9,089,264)	(10,476,219)
Closing cost	14,065,417	224,266,510	238,331,927
Unrealised losses	(450,184)	(146,313,559)	(146,763,743)
Asset-backed securities at fair value	13,615,233	77,952,951	91,568,184

16. Segmental Reporting (continued)

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the countries of the underlying collateral. The SMEs and ABS Bonds have cross border exposures and so these have been grouped into a combined 'Europe' segment, exposures in this segment include Germany, Spain, and Switzerland. It is not possible to split the reporting further without significant cost with limited benefit to the user of the accounts. As a result of the change in investment policy during the year, the significant segments for year ended 31 March 2011 differ from the segments reported for the previous year.

	Segmental Profit		**Segmental Assets**	
	31 March 2011	**31 March 2010**	**31 March 2011**	**31 March 2010**
Ireland	8,279,585	-	59,479,203	-
Italy	761,336	(8,627,656)	2,871,195	8,383,724
Netherlands	2,072,860	-	17,238,452	-
Portugal	-	4,965,264	-	33,197,921
United Kingdom	3,104,913	9,958,869	43,032,910	10,742,343
Europe	9,332,343	4,222,184	3,483,227	42,543,996
	23,551,037	**10,518,661**	**126,104,987**	**94,867,984**

17. Other liabilities

	31 March 2011 Euro	**31 March 2010 Euro**
Interest payable	-	42,778
Due to related parties – Investment Manager (Note 21)	198,009	147,854
Payable for investments purchased	8,450	-
Accrued expenses	1,970,950	1,041,157
	2,177,409	**1,231,789**

Other liabilities principally comprise amounts outstanding in respect of interest payable and ongoing costs.

18. Share capital

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders, comprising issued share capital and reserves, as disclosed on the Consolidated Statement of Financial Position.

The Company does not have any externally imposed capital requirements. At 31 March 2011 the Company had capital of Euro 76,593,705 (2010: Euro 99,329,841).

The investment objective is to provide Ordinary Shareholders with a levered exposure to a diversified and amortising portfolio of Residual Income Positions and a growing portfolio of Real Estate Debt Investments and to provide Preference Shareholders with stable returns in the form of quarterly dividends. The Group will seek to achieve this objective by investing primarily in debt secured by commercial or residential properties in Western Europe and the United Kingdom.

The Group's dividend policy has been amended so that available income is first used to pay any Preference Dividend that is due and payable and then, if the Directors in their sole discretion so resolve, to Ordinary Shareholders.

The risks are managed by the Company's Investment Manager as described in Note 15.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2011

18. Share capital (continued)

Authorised Share Capital

	31 March 2011 Number of Ordinary Shares	31 March 2011 Euro	31 March 2010 Number of Ordinary Shares	31 March 2010 Euro
Ordinary shares of no par value each	Unlimited	-	Unlimited	-

Issued and fully paid

	Number of Ordinary Shares	Euro	Number of Ordinary Shares	Euro
Balance at start of year	26,644,657	-	26,644,657	-
Ordinary shares issued during the year	13,322,328	-	-	-
Balance at end of year	39,966,985	-	26,644,657	-

In terms of the Placing and Open Offer, the Ordinary Shares were issued at Euro 2.00 per share.

No ordinary shares were bought back or cancelled during the period.

The Company made a Bonus Issue to Ordinary Shareholders of Preference Shares pro rata to their holding of Ordinary Shares following the completion of the Placing and Open Offer.

Preference Shares Issued and fully paid

	31 March 2011 Number of Preference Shares	31 March 2011 Euro	31 March 2010 Number of Preference Shares	31 March 2010 Euro
Preference shares at start of year	-		-	-
Preference shares issued during the year at par	49,958,704	57,665,484	-	-
Remaining unamortised issue costs allocated to Preference Shares	-	(1,266,385)	-	-
Net unrealised (gains) due to foreign exchange fluctuations	-	(1,234,451)	-	-
Balance at end of period	49,958,704	55,164,648	-	-

During the year ended 31 March 2011 49,958,704 Preference Shares were issued with a par value of £1 (EUR 1.154) per share. All issued shares are fully paid. Expenses arising as a result of the Bonus Issue have been allocated to the Ordinary and Preference Shareholders based on a pro-rata allocation. Expenses borne by the Preference Shareholders will be amortised over the life of the Preference Shares, being seven years. The initial recognised fair value of the Preference Shares has been reduced by the amount of expenses accrued at 31 March 2011.

Following the Open Offer in September 2010, the FX hedging approach was amended due to the effect of the large GBP preference share liability. The Company hedges the net GBP exposure, taking into account the GBP investments and cash balances which partially offset the GBP preference liability. As the value of the GBP assets may change over time due to purchases, potential sales and different amortisation profiles, the Company uses a combination of a long dated limited loss forward and shorter dated forward hedges.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2011

18. Share capital (continued)

The holders of Preference Shares are entitled to receive dividends of 8% per annum of the Preference Share Notional Value. Preference Shares do not carry the right to vote. The holders of Preference Shares participate only to the extent of the face value of the shares. The Preference Shares are classified as liabilities.

The Preference Shares shall be redeemed by the Company in the following circumstances:

a) at any time, by way of the purchase of any such Preference Shares by the Company through the facilities of the London Stock Exchange; or
b) upon a change of control of the Company (defined as the acquisition by a single person or persons acting in concert of more than 50% of the voting rights attached to the Ordinary Shares), but only if a majority of Preference Shareholders attending and voting at a special class meeting of Preference Shareholders (which shall be convened within 60 days of the change of control) so resolve by way of an ordinary resolution, at a price equal to the Repayment Amount; or
c) if more than 75% of the Preference Shares have been redeemed before the expiration of the seven year period referred to under paragraph (d) below, by way of a mandatory redemption programme launched by the Company at its sole discretion, at a price equal to the higher of (i) the Repayment Amount, or (ii) the average mid-market closing price over the five Business Days prior to the announcement of the launch of such programme; or
d) if not redeemed earlier pursuant to paragraphs (a), (b) or (c) above, on a date that is seven years after their issue at the Repayment Amount.

19. Reserves

		31 March 2011	
	Accumulated Reserves	**Capital Reserves**	**Total Reserves**
	Euro	**Euro**	**Euro**
Balance at start of year	**91,657,341**	**7,672,500**	**99,329,841**
Issue of Ordinary Shares of the Company	26,644,656	-	26,644,656
Issue of Preference Shares of the Company	(57,665,484)	-	(57,665,484)
Ordinary Shares issuance expenses	(730,000)	-	(730,000)
Net profit for the year	15,649,212	-	15,649,212
Distribution to the Ordinary Shareholders of the Company	(6,634,520)	-	(6,634,520)
Balance at end of year	**68,921,205**	**7,672,500**	**76,593,705**

		31 March 2010	
	Accumulated Reserves	**Capital Reserves**	**Total Reserves**
	Euro	**Euro**	**Euro**
Balance at start of year	**97,912,591**	**7,672,500**	**105,585,091**
Net profit for the year	2,271,042	-	2,271,042
Distribution to the ordinary Shareholders of the Company	(8,526,292)	-	(8,526,292)
Balance at end of year	**91,657,341**	**7,672,500**	**99,329,841**

As the Ordinary Shares of the Company have no par value and since the Group is not required to maintain separate classes of reserves, the proceeds from the open offer have been classified as reserves.

19. Reserves (continued)

The proceeds of the Initial Public Offering represent the premium on the issue of the Ordinary Shares. In accordance with the accounting policies of the Group and as allowed by The Companies (Guernsey) Law, 1994, the costs of the Initial Public Offering were expensed against the share premium account.

20. Notes to Statement of Cash Flows

	Year ended 31 March 2011 Euro	Year ended 31 March 2010 Euro
Net profit	15,649,212	2,271,042
Adjustments for:		
Amortised share issue expenses	89,615	-
Net realised gains on sale of investments	(6,363,615)	(448,834)
Realised losses on options	762,000	429,617
Net foreign exchange gain on preference shares	(1,234,451)	-
Unrealised losses on investments at fair value through profit or loss	(3,741,061)	4,984,421
Unrealised losses on options	353,129	3,789,307
Unrealised losses on interest rate swap agreements	2,236,915	1,090,897
Unrealised gains on foreign exchange bank balances	(13,179)	(190,043)
Unrealised losses on foreign exchange instruments	92,684	-
	7,831,249	11,926,407
Purchases of investments	(61,331,163)	(12,415,474)
Sales proceeds from investments	27,498,151	14,166,837
Purchases of options	(2,829,236)	-
Options written	882,101	1,388,986
Cash receipts on investments	11,360,137	10,476,219
	(24,420,010)	13,616,568
(Increase)/decrease in receivables	(1,199,481)	286,644
Increase in payables	945,620	427,555
	(253,861)	714,199
Net cash (outflow)/inflow from operating activities	(16,842,622)	26,257,174

Purchases and sales of investments are considered to be operating activities of the Group, given its purpose, rather than investing activities.

Cash and cash equivalents includes amounts held in interest bearing accounts and overdraft facilities.

21. Material agreements and related party transactions

Investment Manager
The Company and Trebuchet Finance Limited are parties to an Investment Management Agreement with the Investment Manager (a related party), dated 8 December 2005, pursuant to which both the Company and Trebuchet Finance Limited have appointed the Investment Manager to manage their respective assets on a day-to-day basis in accordance with their respective investment objectives and policies, subject to the overall supervision and direction of their respective Boards of Directors.

21. Material agreements and related party transactions (continued)

Investment Manager (continued)
The Group pays the Investment Manager a Management Fee and Incentive Fee (see Notes 7 and 17). During the year ended 31 March 2011, the Management Fee totalled Euro 2,051,074 (2010: Euro 1,766,563), of which Euro 198,009 (2010: Euro 147,854) was outstanding at the year end. There was no incentive fee charged during the year ended 31 March 2011 or 31 March 2010.

Management Fee
Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive from the Group an annual Management Fee of 1.75 per cent of the net asset value of the Group other than to the extent that such value is comprised of any investment where the underlying asset portfolio is managed by the Investment Manager (as is the case with Cheyne High Grade ABS CDO Limited). The Management Fee is calculated and payable monthly in arrears.

Incentive Fee
Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive an incentive compensation fee in respect of each incentive period that is paid quarterly in arrears. An incentive period will comprise each successive quarter, except the first such period which was the period from admission to the London Stock Exchange to 31 March 2006. The Incentive Fee for each incentive period is an amount equivalent to 25 per cent of the amount by which A exceeds (B × C) where:

A = The Group's consolidated net income taking into account any realised or unrealised losses (but only to the extent they have not been deducted in a prior incentive period) and excluding any gains from the revaluation of investments, as shown in the Group's latest consolidated management accounts for the relevant quarter, before payment of any Incentive Fee;
B = An amount equal to a simple interest rate equal to two per cent per quarter, subject to the reset mechanic described below (the "Hurdle Rate"); and
C = The weighted average number of Shares outstanding during the relevant quarter multiplied by the weighted average offer price of such Shares.

For the purposes of calculating the Incentive Fee, the Hurdle Rate will be reset on 1 April 2009, and on each 1 April thereafter to equal the greater of (i) a simple interest rate equal two per cent per quarter, or (ii) one quarter of the sum of the then-prevailing yield per annum on ten-year German Bunds and 300 basis points. While the Group will not pay a Management Fee in respect of that portion of its portfolio that is comprised of investments where the Investment Manager receives fees for its management of the underlying asset portfolio, the income from such investments are included in the consolidated net income of the Group for the purpose of calculating the Incentive Fee.

There was no incentive fee charged during the year ended 31 March 2011 or 31 March 2010.

Administration Fee
Under the terms of the Administration Agreement, the Administrator is entitled to receive from the Group an administration fee of 0.125 per cent of the gross asset value of the Group up to Euro 80,000,000 and 0.0325 per cent of the gross asset value of the Group greater than Euro 80,000,000. State Street Fund Services (Ireland) Limited, the sub-administrator, is paid by the Administrator.

Custodian Fee
Under the terms of the Custodian Agreement, the Custodian is entitled to receive from the Group a custodian fee of 0.03 per cent of the gross asset value of the Group up to Euro 80,000,000 and 0.02 per cent of the gross asset value of the Group greater than Euro 80,000,000, plus additional fees in relation to transaction fees, statutory reporting, corporate secretarial fees and other out of pocket expenses.

21. Material agreements and related party transactions (continued)

Investment Manager Options
In recognition of the work performed by the Investment Manager in raising capital for the Group, the Group granted to Cheyne Global Services Limited on 8 December 2005 options representing the right to acquire 2,250,000 Shares, being 10 per cent of the number of Offer Shares (that is, excluding the Shares issued to Cheyne ABS Opportunities Fund LP and the Shares issued to the Directors), at an exercise price per share equal to the Offer Price (Euro 10). The Investment Manager Options are fully vested and immediately exercisable on the date of admission to the London Stock Exchange and will remain exercisable until the 10th anniversary of that date. The Group may grant further Investment Manager Options in connection with any future offering of Shares.

Such options, if any, will represent the right to acquire Shares equal to not more than 10 per cent of the number of Shares being offered in respect of that future offering and will have an exercise price equal to the offer price for that offering. The aggregate fair value of the options granted at the time of the Initial Public Offering using a Black-Scholes valuation model was Euro 7,672,500 (reflecting a valuation of Euro 3.41 per option). This amount has been treated as a cost of the Initial Public Offering. As at 31 March 2011, these options were out of the money as the share price was below the Offer Price of Euro 10.

Significant Shareholder
Cheyne ABS Opportunities Fund, a Company that is also managed by Cheyne Asset Management (UK) LLP, held 15,773,804 shares in the Company at 31 March 2011.

22. Significant Events during the year

On 15 September 2010, the Company’s Shareholders approved a 1 for 2 Placing and Open Offer of Ordinary Shares at EUR 2.00 per share. In conjunction with the Placing and Open Offer, the Company has issued a bonus 8% seven year Preference Share, denominated in GBP, to qualifying Shareholders. The Bonus Issue amounted to 1.25 Preference Shares for every Ordinary Share held. The Company intends to use the proceeds of the offer to invest in European Real Estate Debt Investments. Accordingly, the Company changed its name to Real Estate Credit Investments Limited to reflect its change in investment policy which is now to aim to provide Ordinary Shareholders with a levered exposure to a diversified and amortising portfolio of Residual Income Positions and a growing portfolio of Real Estate Debt Investments and to provide Preference Shareholders with stable returns in the form of quarterly dividends. The Group will seek to achieve this objective by investing primarily in debt secured by commercial or residential properties in Western Europe and the United Kingdom (“Real Estate Debt Investments”).

The Group has amended its dividend policy. The Group’s previous dividend policy was to pay out a majority of its net income (but excluding any realised or unrealised surpluses from the sale, realisation or revaluation of investments held directly by the Company) to Ordinary Shareholders in the form of quarterly dividends, subject to having distributable profits available for this purpose and any Financial Services Authority or other legal limitations. Following completion of the Bonus Issue of Preference Shares, the Company currently intends that available income is first used to pay any Preference Dividend that is due and payable and then, if the Directors in their sole discretion so resolve, to pay dividends to Ordinary Shareholders. It is expected that any future dividends payable to Ordinary Shareholders, following payment of any Preference Dividend, will be substantially reduced as compared to the dividends that have been previously paid in respect of the Ordinary Shares.

22. Significant Events during the year (continued)

However, the Directors do currently intend that the Company continues to pay a dividend to Ordinary Shareholders when it is able and appropriate to do so. The Company further intends, subject to the performance of the Investment Portfolio, that the amount of dividends paid, if any, to Ordinary Shareholders following the change to the dividend policy should be adjusted from time to time in line with any increase or decrease in interest income from the Investment Portfolio, subject to applicable law and regulation.

On 6 April 2010, the Company paid back Euro 8,642,967 loan balance and all interest due on the loan, terminating any further liabilities under the loan facility.

In May 2010, the Company sold the Gate 06-1 SME and Eirles Three portfolios at prices that exceeded the 31 March 2010 valuations.

In January 2011, the Company sold the ESAIL 2006 portfolio at a price that exceeded the 31 March 2010 valuation.

From 8 March 2011, State Street Fund Services (Guernsey) Limited was appointed Administrator and provides all administration services to the Group in this capacity.

23. Subsequent Events

In May 2011 the company reduced its exposure to Portuguese mortgage residual income investments by selling the Lusitano Mortgages No. 1 plc, Lusitano Mortgages No. 2 plc and Lusitano Mortgages No. 3 plc Portuguese mortgage residual income investments, and in June 2011, the Company further reduced its exposure to UK mortgage residual income investments by selling the RMAC 2004 NSP4 plc, RMAC 2005 NS3 plc and RMAC 2005 NS4 plc UK mortgage residual income investments, the sale of these residual income positions raised EUR 26,540,167.

24. Foreign Exchange Rates

The following foreign exchange rates relative to the Euro were used as at 31 March 2011:

British pound	0.88531
US Dollar	1.41910

The following foreign exchange rates relative to the Euro were used as at 31 March 2010:

British pound	0.89202
US Dollar	1.35310

25. Approval of the Consolidated Financial Statements

The financial statements were approved by the Directors on 15 June 2011.

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