REAL ESTATE CREDIT INVESTMENTS PCC LIMITED
(formerly Real Estate Credit Investments Limited)

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

REAL ESTATE CREDIT INVESTMENTS PCC LIMITED

Contents

Chairman's Statement

In a year blighted by destructive political, economic and financial forces, Real Estate Credit Investments PCC Limited (the "Company") has experienced a constructive first financial year under both its new name and new structure. The Company closed the year ending 31 March 2012 on a firm financial footing and with scope to make further progress.

The Manager has successfully completed the realignment to focus on real estate debt securities and loans. The Company delivered positive final results, recording an operating profit (before net valuation losses) of GBP 6.9 million. While the second and third quarters saw considerable market instability amid Eurozone uncertainty, the investment team diligently managed risk, limiting exposure to bond market turmoil.

Looking ahead, the team continues to identify further attractive investment opportunities as banks look to reduce leverage and exposure to real estate debt. We have full confidence in the fundamentals behind this strategy, in the existing portfolio and its ability to deliver considerable returns for Shareholders in the medium to long term.

Completion of Company realignment

Your Company's Manager has made considerable progress throughout the past financial year in completing the transformation to an investment company focused on real estate securities and residential loans.

This journey had started the previous financial year in September 2010 when the Company's Shareholders approved a placing and open offer of Ordinary Shares together with the bonus issue of 8% seven-year Preference Shares, denominated in Sterling, to qualifying Shareholders. At the same time, signalling the new strategy, the Company changed its name to Real Estate Credit Investments PCC Limited.

In August 2011 the Company completed the separation of its Core and Legacy assets by converting to a protected cell company, becoming Real Estate Credit Investments PCC Limited, with RECI Core ("RECI") housing the real estate debt portfolio and new residential loan portfolio. The legacy residual income assets were transferred to the Cell, European Residual Income Investments ("ERII").

The Company had success in continuing to reduce its legacy portfolio. In the first quarter of the financial year the Company sold GBP 22 million of legacy assets at prices accretive to net asset value ("NAV"). The investment team has since reinvested these and other cash proceeds in real estate bonds and loans.

RECI has also aligned its currency with investor demand. Effective 1 October 2011, it changed trading denomination to Sterling from Euro and since then has hedged its non Sterling exposure; the financial statements for the year are drawn up in Sterling.

Fourth quarter momentum and new investments

The final quarter of the 2012 financial year brought a significant rally in the value of RECI's real estate bond portfolio. RECI recorded fair value gains of GBP 3.4 million on the portfolio as well as GBP 2.7 million of operating income. The gains came as bond markets were buoyed by the Long Term Refinancing Operations ("LTRO") liquidity injections announced in December 2011. The performance of the real estate bond portfolio has contributed to a quarterly net profit for RECI of GBP 4.5 million and an improvement in RECI NAV, which reached GBP 1.10 at 31 March 2012, up from GBP 1.00 at the end of 2011.

This performance underscored the sound fundamentals behind RECI's investment strategy and reinforced the importance of pursuing the strategy. To that end the investment team stepped up its investment programme in the three months to 31 March 2012, making GBP 12.6 million in new real estate bond investments.

RECI is alert to new opportunities and has identified a fresh investment niche in the shape of short term bridge loans secured on prime UK residential property. It has built up a Residential Loan Portfolio of GBP 4.0 million as at the end of the financial year. The appeal of this sector is the combination of strong double-digit returns and low weighted average loan-to-value ("LTV") ratios of less than 65%.

Chairman's Statement (continued)

Fourth quarter momentum and new investments (continued)
Looking at the financial year as a whole, the Company (Core and Cell) made positive total returns in its first and fourth quarters but saw valuation losses during the second and third quarters. Over the financial year ended 31 March 2012 the Company recorded a net profit (after net valuation losses) of GBP 1.0 million, compared with a GBP equivalent net profit of GBP 12.2[1] million for the financial year ended 31 March 2011.

In December 2011 RECI returned cash to Shareholders via a buy-back of 2.8 million preference shares at an average price of 92.5 pence (in GBP).

The Company announced in April 2012 that it intends to distribute a higher percentage of the yield from its investments as an increase in the ordinary dividends. Following this, for the quarter ended 31 March 2012, the Company has declared a quarterly dividend of 1.7 pence (GBP) per RECI Ordinary Share, which represents more than a 6% annual yield on NAV. The Directors remain committed to recommending payment of quarterly dividends that can be sustained by the Company's income generating potential. The Company is not declaring a dividend for the ERII Ordinary Share for the period 31 December 2011 to 31 March 2012 as the Preference Share Cover test was not passed.

Active risk management
RECI's investment managers have been diligent in managing risks and exposures of the real estate debt portfolio throughout the instability in the Eurozone and across bond markets. The Company took a very deliberate defensive stance early in the financial year. From the first quarter RECI made fewer and more defensive asset purchases than in the previous financial year. From July to September 2011 it reduced overall exposure to credit and increased cash balances, before picking up investment again later in the third and the fourth quarters as attractive opportunities appeared.

The Company has also used hedging tools where appropriate to mitigate ongoing risks in the commercial property and bond markets. For example RECI has partial protection against significant falls in UK commercial property values in 2012 through a short position taken in October 2011 on the Investment Property Databank (IPD) Index. This position is especially important to RECI's Class D and below investments which accounted for 33.5% of the portfolio as of 31 March 2012. In March 2012, the Company also entered into a short position on European credit spreads. This hedge will offset falls in bond prices should credit markets widen due to stresses in the Eurozone.

The European Residual Income Investments Cell ("ERII") was created on 11 August 2011 to separate the Company's core and non-core assets. The ERII ordinary share gives investors direct exposure to the Company's remaining seven residuals. The portfolio has been performing in line with expectations and continues to generate cash flows. Thus far the Company has distributed just over EUR 1 million from the Cell and will continue with its policy of distributing available cash subject to satisfying the Preference Share Cover Test and the cash flow needs of the Company.

Outlook – Scope for strong returns while monitoring risks
RECI is committed to build on fourth-quarter growth in NAV by continuing to invest in undervalued assets, to generate strong risk-adjusted returns in the Real Estate Debt Portfolio and in the Residential Loan Portfolio.

We have confidence that this focus on real estate securities and loans will produce attractive investment opportunities that deliver above-average returns. The Company will continue its strategy of taking advantage of market dislocations to buy high-quality bonds at a discount and which we expect to redeem at par.

With many banks under pressure to reduce leverage and offload certain risk-weighted assets, we expect more buying opportunities to materialise, allowing RECI to buy high quality bonds and loans at attractive returns.

[1] 2011 financial year accounts have been converted into Sterling at relevant exchange rates.

Chairman's Statement (continued)

Outlook – Scope for strong returns while monitoring risks (continued)
The Company will continue building its Residential Loan Portfolio. The fact that it is harder for banks to provide necessary credit in these markets provides the opportunity for RECI to offer investors real estate financing. As noted above, these investments offer strong yields and low LTV ratios.

Moreover, RECI is ideally positioned to take advantage of this opportunity and wider opportunities across real estate debt markets. RECI has access to market intelligence on refinancing opportunities and strong relationships with loan market participants. We will pursue both primary and secondary market opportunities.

RECI is aware that concerns about the Eurozone sovereign and banking crisis will weigh heavily on markets in the near to medium term. Greater mark-to-market volatility is a feature of today's bonds markets. As explained, the Company has already taken action to mitigate some of these pressures in the past year with defensive positioning and hedging and will continue to do so in the months ahead. We can also expect bond repayments to counter the effects of weaker bond prices in the portfolio.

We look forward to maintaining the dialogue with our investors as we seek to take maximum advantage of current market opportunities in order to deliver attractive Shareholder returns.

Annual General Meeting
The Company's Annual General Meeting will be held at the registered offices of the Company on 5 September 2012. The notice of the Annual General Meeting and a form of proxy will accompany the annual report to be distributed to Shareholders of the Company.

Tom Chandos, Chairman
6 June 2012

Investment Manager's Report

Key steps in shaping RECI to focus on real estate securities

Grown Real Estate Debt Portfolio

Over the course of the financial year-ending 31 March 2012 RECI increased its exposure to real estate loans and bonds to GBP 86.8[1] million from GBP 62.8 million.

Reduced Legacy Portfolio

In the first quarter of the financial year, the Company sold GBP 22 million, across 6 positions, of its legacy residual income investments at prices accretive to NAV, re-investing the cash proceeds into RECI's real estate bond portfolio.

Separated Core and Legacy Assets

On 11 August 2011 Real Estate Credit Investments Ltd converted into a protected cell company, and consequently changed its name to "Real Estate Credit Investments PCC Ltd". The real estate bond portfolio was retained in the Core ("RECI") and the legacy residual income assets were moved into the Cell ("ERII").

Aligned currency with investor demand

Effective 1 October 2011 RECI changed its trading denomination from Euro to Sterling. From this date RECI hedged its non-sterling currency exposure. The change aligns the Company to broader investor demand. ERII denomination remained Euro.

Returned cash to Shareholders through buy-back

At the EGM on 21 October 2011, Shareholders approved a resolution allowing the Company to buy back Preference, Cell and Ordinary Shares for the subsequent twelve month period. The Company bought back 2.8 million preference shares at a discount.

Real Estate Bond Portfolio Review

RECI recorded fair value gains of GBP 3.4 million on the real estate bond portfolio for the quarter ended 31 March 2012. This compared with fair value losses of GBP 3.7 million for the quarter ended 31 December 2011.

RECI stepped up bond purchases during the fourth quarter, with GBP 12.6 million in new investments versus GBP 10.1 million in the previous quarter. The weighted average expected yield to maturity of new investments was 11.0% and RECI purchased bonds at an average price of 73 pence (GBP). The Company sold GBP 9.0 million of bonds in the quarter.

As at 31 March 2012, the portfolio of 124 bonds was valued at GBP 82.8 million, with a nominal face value of GBP 136.8 million[2]. The average purchase price of the portfolio was 68 pence (GBP) with a weighted average expected yield to maturity of 14.1%[3].

In the financial year ended 31 March 2012 the Company has benefited from bond repayments of approximately GBP 9.5 million, or approximately 12.2% of the average bond portfolio value over the year. Significant bond repayments are listed in table below.

Bond	Date of principal repayment	Event
PPCRE 2006-1	April 2011	Full repayment of bond. Sale of property in Paris
Fltst 2	October 2011, January 2012, April 2012	Continued sale of German Karstadt retail portfolio
Eclipse 2007-2	November 2011, February 2012	Partial repayment following sale of Swedish Keops office portfolio
Euro 26	October 2011	Partial repayment following sale of Sanctuary Building in London

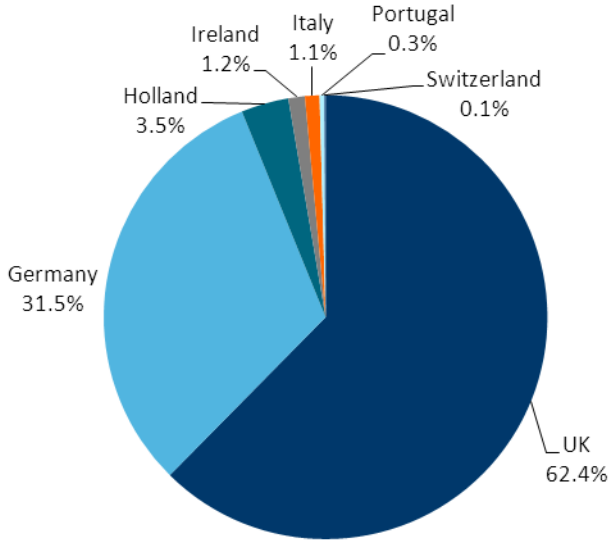
[1] Value of bond and loan portfolio including accrued interest
[2] Cost and nominal shown are calculated with original notional using pool factor and FX rate as at 31 Match 2012
[3] Average expected yield to maturity based on cost price

Investment Manager's Report (continued)

Real Estate Bond Portfolio Breakdown[4]

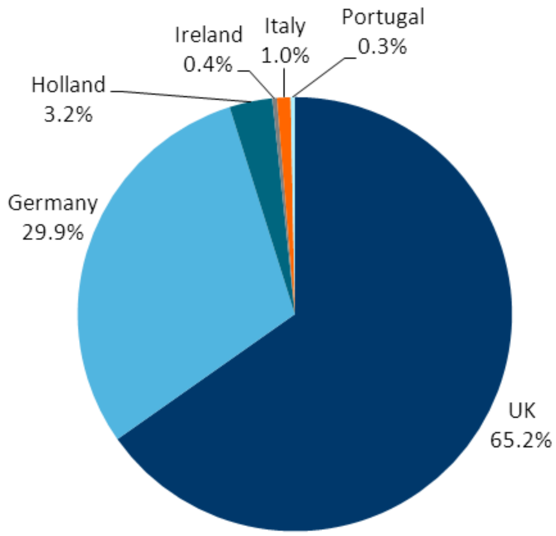
A breakdown of RECI's bond portfolio as at 31 December 2011 and 31 March 2012 by jurisdiction (by reference to underlying asset originator) is set out below.

31 December 2011



GBP 77.1mm

31 March 2012



GBP 82.8mm

Values may not sum to 100% due to rounding differences

Bond purchases and sales since 31 March 2012

Between 1 April 2012 and 15 May 2012, the Company invested GBP 1.8 million at an average price of 74 pence (GBP) and a weighted average expected yield-to-maturity of 9.8%. RECI also sold GBP 8.0 million of bonds during this period. As at 15 May 2012, the portfolio consisted of 117 bonds with a fair value of GBP 75.5 million and a nominal face value of GBP 122.2 million[5].

Actively managing risk

The Company has managed its exposure to real estate bond markets throughout the financial year and has balanced the opportunities to buy attractive bonds against mark to market volatility created by the Eurozone crisis. In the second financial quarter, July to September 2011, the Company significantly reduced its bond exposure in response to increasing concerns over European bank liquidity. Following a stabilisation in prices, the Company has increased its bond exposure from a low of GBP 69.6 million as at 31 October 2011 to GBP 75.5 million as at 15 May 2012.

A table showing RECI's Real Estate Debt and Residential Loan exposures since 31 March 2011 is set out below.

	31 Mar 2011	**30 Jun 2011**	**30 Sep 2011**	**31 Dec 2011**	**31 Mar 2012**	**15 May 2012**
Real Estate Debt Portfolio	GBP 62.8m	GBP 89.7m	GBP 77.7m	GBP 77.1m	GBP 82.8m	GBP 75.5m
Residential Loan Portfolio	-	-	-	GBP 1.9m	GBP 4.0	GBP 6.5

[4] The real estate bond portfolio includes two bonds collateralised by SME loans accounting for 1.0% of the portfolio as at 31 March 2012
[5] Cost and nominal shown are calculated with original notional using pool factor and FX rate as at 31 Match 2012

Investment Manager's Report (continued)

Real Estate Bond Portfolio (continued)

Actively managing risk (continued)
RECI has also used hedging tools to mitigate risks in the commercial property and bond markets. On 4 October 2011, the Company purchased a GBP 16.0 million short forward position on the IPD index. The Company will receive the difference between the value of the IPD index between 31 December 2011 and 31 December 2012. This hedge will be in the money should capital values of UK commercial property, as measured by the IPD index, fall by approximately 5.5%. This hedge provides some protection to RECI's portfolio of Class D and below bonds.

At the end of March, the Company entered into a EUR 50 million short position on the iTraxx Main index to hedge against a widening of credit spreads. Credit spreads of real estate bonds have historically been correlated with spreads on the main index during periods of market stress. This position should offset some of the mark to market volatility in the bond portfolio.

Monthly Bond Performance Summary as at 15 May 2012

	December	January	February	March	April	May
% Fair Value Change	-0.62%	2.73%	1.49%	3.08%	0.55%	0.47%
WA Purchase Price	0.48	0.71	0.75	0.66	0.74	-
WA Purchase Yield	28.75%	12.14%	9.63%	13.48%	9.82%	-

Asset Class Distribution of Bond Portfolio by Fair Value as at 15 May 2012

Bond Class	UK CMBS	UK RMBS	Euro CMBS	Euro RMBS	SME	Total	Total as at 31 March 12
A	8.6%	2.0%	7.3%	0.2%	0.0%	18.0%	**18.3%**
B	11.8%	10.6%	9.4%	0.0%	0.0%	31.8%	**30.9%**
C	8.3%	3.8%	3.7%	0.0%	0.0%	15.8%	**17.2%**
D	4.8%	2.9%	8.3%	0.2%	1.0%	17.2%	**16.5%**
E and Below	11.0%	3.0%	3.2%	0.0%	0.0%	17.2%	**17.0%**
Total	44.4%	22.3%	31.9%	0.4%	1.0%	100.0%	
Total as at 31 Mar 12	39.2%	25.8%	33.3%	0.7%	1.0%		

Ratings Distribution of Bond Portfolio by Fair Value as at 15 May 2012

Current Rating	UK CMBS	UK RMBS	Euro CMBS	Euro RMBS	SME	Total	Total as at 31 March 12
AAA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**
AA	1.2%	5.1%	1.3%	0.0%	0.0%	7.5%	**8.4%**
A	10.7%	6.6%	10.3%	0.0%	1.0%	28.6%	**28.4%**
BBB	7.0%	5.6%	3.4%	0.0%	0.0%	15.9%	**19.3%**
BB and Below	25.6%	5.1%	16.9%	0.4%	0.0%	47.9%	**43.9%**
Total	44.4%	22.3%	31.9%	0.4%	1.0%		
Total as at 31 Mar 12	39.2%	25.8%	33.3%	0.7%	1.0%		

Values may not sum to 100% due to rounding differences

Investment Manager's Report (continued)

Residential Loan Portfolio

The Company increased its exposure to UK residential loans in the fourth quarter, to GBP 4.0 million. As at 15 May 2012, the residential loan portfolio had grown to GBP 6.5 million, and had a weighted average LTV of less than 65% and weighted average yield of 16%. The loan portfolio comprises short-term bridge loans predominately made against properties in London and the south-east. Most (64%) of the loans are second-lien loans with a weighted average LTV of 59.3%. The remaining loans are first-lien loans with a weighted average LTV of 65.5%. The Company intends to limit its exposure to residential real estate bridge loans to 15% of gross assets.

Top 10 Investment Portfolio Exposures[6] as at 15 May 2012

Market Value	GBP 31.5 million
WA Original LTV[7]	52.9%
WA Cheyne Current LTV[7]	66.0%
WA Effective Yield[8]	13.8%

Type	Class	Collateral Description
Commercial	A2	Portfolio of nursing homes operated by Four Seasons Health Care Group
Residential	Loans	Portfolio of residential real estate bridge loans in the UK
Commercial	E	Portfolio of commercial loans secured by property in London
Commercial	A1	Portfolio of nursing homes operated by Four Seasons Health Care Group
Residential	B	Portfolio of UK non-conforming mortgages
Commercial	A	Portfolio of commercial loans secured by properties in the UK
Commercial	D	Portfolio of Karstadt retail stores in Germany
Residential	B	Portfolio of UK buy-to-let mortgages
Commercial	C	Single commercial loan secured by office property in London
Commercial	E	Portfolio of commercial loans secured by properties in Germany

Outlook for RECI

Attractive investment opportunities

RECI has confidence that its focus on real estate debt will continue to produce attractive investment opportunities that generate strong returns. We will maintain the Company's strategy of taking advantage of market dislocations to buy high credit quality bonds at a discount and which we expect to redeem at par. With many banks under pressure to de-lever and reduce their risk-weighted assets, we expect more buying opportunities to materialise.

The Company will also seek to increase its exposure to the commercial real estate loan markets. The reduced availability of bank credit in these markets provides an opportunity for RECI to offer investors real estate financing.

The investment team will closely monitor which segment of the market offers the best relative value. To date, relative value has been the most compelling in real estate bonds, but the Company has detected increasing opportunities in loan markets which offer strong yields and low LTV ratios.

[6] Based on fair value of bonds and loans
[7] The weighted average original loan to value has been calculated by reference to the original acquisition value of the relevant collateral as disclosed at the time of issue of the relevant bond or loan. The original LTV is weighted by the market value of the bonds and loans. The weighted average Cheyne current LTV has been calculated by Cheyne by reference to the current value ascribed to the collateral by Cheyne. In determining these values, Cheyne has undertaken its own internal valuation of the underlying collateral. Such valuations have not been subject to independent verification or review.
[8] WA effective yield is based on the effective yield as at most recent purchase and is based on Cheyne's pricing assumptions and actual returns may differ materially from those expressed or implied herein.

Investment Manager's Report (continued)

Outlook for RECI (continued)

Mitigating price volatility
RECI is aware that concerns about the Eurozone sovereign and banking crisis will weigh heavily on markets in the near to medium term, introducing greater mark to market volatility in the bond portfolio. The Company has already taken action to mitigate some of these pressures in the past year by hedging against the Itraxx Main credit index.

Significant bond repayments
We expect to receive significant levels of bond repayments in the second half of 2012. For example, the repayment of the Titan 2006 Four Seasons bonds backed by the Four Seasons nursing home portfolio will result in an uplift in NAV in excess of GBP 1.3 million (relative to the March 2012 bond prices). These gains should offset mark to market volatility in the portfolio.

European Residual Income Investments (ERII)

The ERII Cell was created on 11 August 2011, and contains the Company's legacy residual income investments. It is the Company's objective, to the extent practicable, to liquidate this portfolio and return cash to Shareholders. Dividends from ERII will be payable to Shareholders as and when the asset coverage test is satisfied. For the period ended 31 March 2012 the Preference Share Cover Test was 2.37, below the threshold of 2.39, and subsequently no dividend will be declared. The table below shows figures as at 31 March 2012.

ERII Key Quarter Financial Data*	Q/E 31 December 2011	Q/E 31 March 2012
Cash balance	EUR 2.6mm	EUR 3.7mm
Residual Total Fair Value	EUR 20.2mm	EUR 19.2mm
Cash Flows in periods	EUR 1.5mm	EUR 1.1mm
Asset Coverage Ratio	2.27	2.37
Dividend Declared	N/A	N/A

Investment Portfolio

European Mortgage Portfolio
The European Mortgage Portfolio generated cash flows of EUR 0.4 million for the quarter ended 31 March 2012, compared to EUR 0.4 million in the previous quarter, and above forecasts of EUR 0.2 million. Write-ups in the portfolio totalled EUR 0.3 million and included a EUR 0.1 million write up in the Sestante mortgage portfolio.

The expected default rate of the Sestante mortgage portfolio has remained unchanged. We maintain a conservative stance on the valuation given it is transferring to a different mortgage servicer. ERII has one remaining Portuguese mortgage portfolio, the Magellan 1 portfolio, which we expect to perform satisfactorily despite continued pressures in Portugal.

SME Portfolio
The Company has increased the assumed loss rate of defaulted loans in the Smart 06-1 portfolio, resulting in a EUR 0.1 million decrease in the fair value. Cash flows for Smart 06-1 in the quarter ended 31 March 2012 totalled EUR 0.1 million, compared to EUR 0.1 million the previous quarter.

UK Mortgage Portfolio
The UK Mortgage Portfolio recorded cash flows of GBP 0.5 million in the quarter ended 31 March 2012 compared to GBP 0.8 million in the previous quarter. There have been no material developments in relation to the Newgate 2006-1 litigation.

Cheyne Capital Management (UK) LLP
6 June 2012

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2012.

Real Estate Credit Investments PCC Limited (formerly Real Estate Credit Investments Limited) (the "Company") was registered on 6 September 2005 with registered number 43634 and is domiciled in Guernsey, Channel Islands. The Company commenced its operations on 8 December 2005. The Company is an authorised closed-ended protected cell 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 shares of the Cell have a separate listing on the Specialist Fund Market on the London Stock Exchange. 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 2012, 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.

On 10 August 2011, following an extraordinary meeting of the Company, the Board of Directors announced the conversion of the Company to a protected cell company ("PCC") under Guernsey Law and the creation of one cell known as European Residual Income Investments Cell (the "Cell" or "ERII Cell"). The majority of the Residual Income Positions, together with cash amounting to EUR 1.5 million, were transferred to the Cell whose Shares have a separate listing on the Specialist Fund Market on the London Stock Exchange. The existing Ordinary Shareholders of the Company at the date of conversion were given shares in the Cell on a pro-rata one for one basis. The Company's Real Estate Debt Investments continue to be held by the non-cellular remainder of the Company (the "Core" or "RECI Core") and the Core's Ordinary Shares continue to have a premium listing on the London Stock Exchange. The Residual Income Position retained in the Core on conversion was redeemed on 25 August 2011. Following from this conversion, the name of the Company was changed to Real Estate Credit Investments PCC Limited on 15 August 2011.

Effective 1 October 2011 the Company changed its functional and presentation currency from Euro to British Pound ("GBP). See Note 2 for further information on this conversion. 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 25 to 27. Dividends totalling GBP 1,666,567 (31 March 2011: GBP 5,685,474) were paid/declared on the Ordinary Shares during the year. A dividend of GBP 1,039,142 was paid during the year in regard to the Cell Shares. A final dividend for the year ended 31 March 2012 of GBP 0.017 per share (31 March 2011: GBP 0.012 per share) was approved by the Directors on 6 June 2012 and has not been included as a liability in these consolidated financial statements. Preference dividends amounting to GBP 3,940,278 (31 March 2011: GBP 2,098,828) 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 Ordinary Share carries the right to one vote at general meetings of the Company. Following the conversion of the Company to a PCC and the transfer of the assets from the Core to Cell, the existing Ordinary Shareholders of the Company at the date of conversion were given shares in the Cell on a pro-rata one for one basis. The underlying value of assets in the Company's Investment Portfolio attributable to the Cell Shares (the Cell Assets) are held separately from the assets within the Investment Portfolio attributed to the Existing Ordinary Shares and the Preference Shares. 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.

Directors' Report (continued)

Capital structure (continued)
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 16 to 20. 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

The Directors' interests (number of Ordinary, Preference and Cell Shares) in the share capital of the Company at 31 March 2012 (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	% of Holding	Number of Cell Shares	% of Holding
Tom Chandos (Chairman)	302,500	0.76%	55,625	0.12%	28,500	0.70%
Graham Harrison	1,500	0.00%	1,875	0.00%	1,500	0.00%
John Hawkins	1,500	0.00%	1,875	0.00%	1,500	0.00%
Talmai Morgan	1,500	0.00%	1,875	0.00%	1,500	0.00%
Christopher Spencer	1,500	0.00%	1,875	0.00%	1,500	0.00%

Substantial interests in share capital
During the year, 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. Mr Tom Chandos purchased 35,000 Ordinary Shares and 220,000 Ordinary Shares in the Company on 22 August 2011 and 27 February 2012 respectively.

Authorised and Issued Share Capital
During the year the Company authorised a new class of share in regard to the ERII Cell. The issued share capital decreased to 87,104,789 shares, made up of 39,966,985 Ordinary Shares and 47,137,804 Preference Shares. The Company also issued 39,996,985 Cell Shares in relation to the ERII Cell.

Listing Information
The Ordinary Shares of the Core have a premium listing on the London Stock Exchange, while the Cell Shares have a separate listing on the Specialist Fund Market of the London Stock Exchange. The Company's Preference Shares have a standard listing on the London Stock Exchange.

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.

Directors' Report (continued)

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.

Significant Events during the year
In May 2011 the Company reduced its exposure to Portuguese mortgage Residual Income Positions by selling the Lusitano Mortgages No. 1 plc, Lusitano Mortgages No. 2 plc and Lusitano Mortgages No. 3 plc Portuguese mortgage Residual Income Positions, and in June 2011, the Company further reduced its exposure to UK mortgage Residual Income Positions by selling the RMAC 2004 NSP4 plc, RMAC 2005 NS3 plc and RMAC 2005 NS4 plc UK mortgage Residual Income Positions. The sale of these Residual Income Positions raised GBP 22,454,418.

On 10 August 2011, following an extraordinary meeting of the Company, the Board of Directors announced the conversion of the Company to a protected cell company ("PCC") under Guernsey Law and the creation of one cell known as European Residual Income Investments Cell (the "Cell" or "ERII Cell"). The majority of the Residual Income Positions with a fair value based on the pricing models at the transfer date of EUR 19,572,010, together with other net assets amounting to EUR 1,674,422, were transferred to the Cell whose Shares have a separate listing on the Specialist Funds Market of the London Stock Exchange. The existing Ordinary Shareholders of the Company at the date of conversion were given shares in the Cell on a pro-rata one for one basis. The Company's Real Estate Debt Investments continue to be held by the noncellular remainder of the Company (the "Core") and the Core's Ordinary Shares continue to have a premium listing on the London Stock Exchange. Following from this conversion, the name of the Company was changed to Real Estate Credit Investments PCC Limited on 15 August 2011. Note 1 provides further details of the major changes that occurred as a result of this conversion.

On 25 August 2011, the Amstel Residual Income Position which was retained within the Core, was redeemed for a principal amount of GBP 10,580,742 and interest of GBP 1,729,833.

Effective 1 October 2011, the trading denomination of the Company's Core Ordinary Shares of no par value was changed to British Pound ("GBP"). The Company reviewed its functional and presentation currencies and the Company and Core also changed its functional and presentation currency to GBP prospectively from that date. The Cell's functional and presentation currency remained the Euro.

Subsequent Events
A final dividend for the year ended 31 March 2012 of GBP 0.017 per share was approved by the Directors on 6 June 2012. There have been no other significant events affecting the Group since the year end date that require amendment to or disclosure in the financial statements.

On behalf of the Board on 6 June 2012

Christopher Spencer
Director

John Hawkins
Director

Investment Policy

Following conversion to a Protected Cell Company, the Investment Policy of the Company has been subdivided into an Investment Policy for the Core and an Investment Policy for the Cell. This reflects the fact that the Investment Manager is responsible for managing two discrete pools of assets, one, represented by the Core, into which Existing Ordinary Shareholders are invested and one, represented by the Cell, into which Cell Shareholders are invested.

Investment Policy for the Core

Asset Allocation
In order to achieve its investment objective for the Core, 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 or through SPVs and 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 Core 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 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 in respect of the Core 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 Core Portfolio.

Investment Policy (continued)

Investment Policy for the Cell

Asset Allocation
In order to achieve its investment objective, the Cell will hold the Cell Assets comprising of Residual Income Positions, until maturity of the coupons unless opportunities for the sale of the Cell Assets arise prior to maturity. The Directors may, at their discretion, return cash to Cell Shareholders by dividends or other distribution. The Directors may also, at their discretion, effect a mandatory redemption of Cell Shares as a means of returning capital to the Cell Shareholders.

The Cell holds the Magellan 1 Notes, the ALBA 2005-1 Notes, the ALBA 2006-1 Notes, the Newgate 2006-1 Notes and the Sestante Notes through Trebuchet and the economic interest in those notes will pass up to the Cell through the Participation Note. The Cell will hold the remaining Cell Assets directly.

The total return from any given investment is primarily driven by the performance of the mortgage and SME loans that collateralise the Residual Income Positions.

The Cell Assets, being seven Residual Income Positions, have some or all of the following key characteristics:

- Euro, GBP or USD denominated;
- held in bearer form or book entry form;
- backed by portfolios of Prime Portuguese residential mortgages, Prime Italian residential mortgages, non-conforming UK residential mortgages, US residential mortgages and European SME loans; and
- mark-to-model and generally illiquid.

With the exception of potential investments in cash deposits and other cash equivalent investments, it is not currently intended that the Cell will make any further investments, either through actively increasing the investment in existing Cell Assets, or investing in further assets. However, as part of the Cell’s overall investment objective, the Cell Assets will be actively managed and the Cell may, therefore, from time to time dispose of a Cell Asset prior to its maturity if the Investment Manager so decides for reasons including, but not limited to, the price offered being sufficiently attractive or the credit view of the underlying assets changing.

Corporate Governance Statement

Statement of compliance with Corporate Governance

Currently, The UK Listing Authority requires all overseas companies with a “Premium Listing” (which includes the Company) to “comply or explain” against the UK Corporate Governance Code (the “Code”).

On 30 September 2011, the Guernsey Financial Services Commission (“GFSC”) issued a new Code of Corporate Governance (the “GFSC Code”) which came into effect on 1 January 2012. The GFSC Code replaces the existing GFSC guidance, “Guidance on Corporate Governance in the Finance Sector”. The GFSC Code provides a framework that applies to all entities licensed by the GFSC or which are registered or authorised as a collective investment scheme under the Protection of Investors (Bailiwick of Guernsey) Law, 1987. Companies reporting against the UK Corporate Governance Code or the Association of Investment Companies Code of Corporate Governance are deemed to comply with the GFSC Code.

The Board of the Company has considered the principles and recommendations of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (AIC Guide).

The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Corporate Governance Code), will provide better information to shareholders.

Throughout the year ended 31 March 2012, the Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Corporate Governance Code, except as set out below.

The UK Corporate Governance Code includes provisions relating to:

- the role of the Chief Executive
- Executive Directors’ remuneration; and
- the need for an Internal Audit Function.

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. The Company has therefore not reported further in respect of these provisions.

The obligations under the EU Company Reporting Directive which are implemented by Disclosure and Transparency Rule 7.2, apply to all issuers of equities from 6 April 2010. Under this rule, a company must:

(i) make a corporate governance statement in its annual report and accounts based on the code to which it is subject, or with which it voluntarily complies; and

(ii) describe its internal control and risk management arrangements.

Details of compliance are noted below. There have been no instances of non-compliance noted.

Throughout the year ended 31 March 2012, the Company has been in compliance with the AIC Code provisions set out in of the AIC Code.

Corporate Governance Statement (continued)

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 of the Company's Preference Shares, the Directors have taken into account the current cash balance, the forecast cash inflows and outflows from the investments and operating expenses. The Directors note the cash resources available at 31 March 2012 (GBP 5.9m) some of which will be used to pay the proposed dividends, are sufficient to cover normal operational costs and current liabilities as they fall due for the foreseeable future.

Board effectiveness

For the purposes of assessing compliance with the AIC 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 AIC 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.

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 Auditor 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 Auditor at least once a year.

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

It receives and reviews reports from the Investment Manager and the Group's external Auditor 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.

Corporate Governance Statement (continued)

Board effectiveness (continued)

The following table shows the number of regularly scheduled meetings held by the Board and each committee for the year ended 31 March 2012 as well as the number of attendances at each meeting.

Board of Directors	Scheduled Board Meetings	Nomination Committee Meeting Attendance	Audit Committee Meeting Attendance
Tom Chandos	4/4	1/1	n/a
Graham Harrison	4/4	1/1	3/3
John Hawkins	4/4	1/1	2/3
Talmai Morgan	3/4	1/1	3/3
Christopher Spencer	3/4	1/1	3/3

There were 3 other unscheduled Board Meetings and 4 other unscheduled Committee Meetings held for specific purposes which were attended by some but not all of the Directors.

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

Mr Hawkins and Mr Spencer will be put forward for re-election at the forthcoming AGM. Their biographies are as follows:

Mr Spencer qualified as a chartered accountant in London in 1975. Following two years in Bermuda he moved to Guernsey. Mr Spencer, who specialised in audit and fiduciary work, was Managing Partner/Director of Pannell Kerr Forster (Guernsey) Limited from 1990 until his retirement in May 2000. Mr Spencer sits on the AIC Offshore Committee and is a past President of the Guernsey Society of Chartered and Certified Accountants, and a past Chairman of the Guernsey Branch of the Institute of Directors. Mr Spencer sits on the Board of Directors of J.P.Morgan Private Equity Limited, IRP Property Investments Limited, Tamar European Industrial Fund Limited, Dexion Trading Limited, John Laing Infrastructure Fund Limited, Ruffer Investment Company Limited and Low Carbon Accelerator Limited, each of which is listed on the London Stock Exchange. Mr Spencer sits on the Board of Directors of Thames River Longstone Limited and Thames River ISIS Fund Limited which are listed on the Irish Stock Exchange. Mr Spencer also sits on the board of Thames River and Property Growth & Income Fund Limited which is listed on the Channel Islands Stock Exchange. Mr Spencer also sits on the board of Thames River Hillside Apex Fund SPC.

Mr Hawkins retired from the Bank of Bermuda, after 25 years with the Group, as Executive Vice President and a Member of the Executive Committee with responsibility for private clients and investments. He spent many years in Asia, based in Hong Kong, and had responsibility for the Asia Pacific region and for the overall development of the Bank's presence there. During his time in Hong Kong Mr Hawkins represented the Bank of Bermuda on a number of industry and government related committees. He had previously been based both in London and Bermuda. His responsibilities have been international and following the amalgamation of the Bank of Bermuda with HSBC Group in February 2004, he was appointed to the board of a subsidiary company of the HSBC Group (resigned 21 May 2008). He also sits on the board of a number of public and private companies including funds and hedge funds. Mr Hawkins is a Fellow of the Institute of Chartered Accountants in England and Wales.

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 and Jefferies International Limited as corporate brokers. Together with these parties, the Investment Manager assists the Board in communicating with the Company's major Shareholders.

Chairman

The Chairman, Mr Tom Chandos, 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

Following a review by the Nominations Committee, the Committee is comfortable that 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 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 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. 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 are provided by State Street (Guernsey) Limited. 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. At 31 March 2011, the Chairman received an annual fee of EUR 120,000 and Mr Morgan, Mr Spencer, Mr Harrison and Mr Hawkins each received an annual fee of EUR 30,000 in each case payable quarterly in equal instalments in arrears. In June 2011, it was resolved to increase the Directors fees by EUR 5,000 per annum. Each of the Directors, with the exception of Mr Chandos, received an additional EUR 5,000 in relation to the Placing and Open Offer during the year ended 31 March 2011 (included in the table below for 2011).

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 2012 EUR	Year ended 31 March 2011 EUR
Tom Chandos (Chairman)	123,750	120,000
Graham Harrison	33,750	35,000
John Hawkins	33,750	35,000
Talmai Morgan	33,750	35,000
Christopher Spencer	33,750	35,000
Total Directors' emoluments	258,750	260,000

During the year, Talmai Morgan received EUR 4,790 and Graham Harrison received EUR 12,500 (2011: EUR 12,500 each) in their capacity as Directors of Trebuchet Finance Limited. Talmai Morgan resigned from the Board of Directors of Trebuchet Finance Limited on 9 June 2011.

From 1 April 2012, Directors remuneration will be paid in the sum of GBP 30,000 per annum instead of EUR 35,000 per annum and the Chairman's fee would be paid in the sum of GBP 105,000 per annum instead of EUR 125,000 per annum.

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 have elected to prepare the group financial statements in accordance with International Financial Reporting Standards ("IFRS"). 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 Group and of the profit or loss of the Group 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 IFRS 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 and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and Group 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 Group 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	**John Hawkins**
Director	**Director**

6 June 2012

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

We have audited the consolidated financial statements of Real Estate Credit Investments PCC Limited (formerly Real Estate Credit Investments Limited) (the "Company") for the year ended 31 March 2012 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 27. 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 Group'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 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Emphasis of matter- fair value of investments held in European Residual Income Investments Cell

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 held in the European Residual Income Investment Cell. In accordance with these policies and the requirements of International Accounting Standard 39, 'Financial Instruments: Recognition and Measurement', the Directors have estimated the fair value of the investments held in the European Residual Income Investments Cell at EUR 17,841,069 as at 31 March 2012.

As described in Notes 2 and 3 of the financial statements, the European Residual Income Investments Cell'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 PCC 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 UK Corporate Governance Code for our review.

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

xx Month 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	Note	RECI Core 31-Mar-2012 GBP	ERII Cell 31-Mar-2012* EUR	Total 31-Mar-2012 GBP	Total 31-Mar-2011 GBP Represented
Interest income	6	11,654,483	3,008,770	14,218,320	13,324,291
Net (losses)/gains on financial assets and liabilities at fair value through profit or loss	4	(5,584,389)	(391,274)	(5,917,802)	4,558,522
		6,070,094	2,617,496	8,300,518	17,882,813
Operating expenses	5	(2,934,063)	(586,634)	(3,433,946)	(3,458,304)
Profit before finance costs		3,136,031	2,030,862	4,866,572	14,424,509
Finance costs	6	(3,867,880)	-	(3,867,880)	(2,177,931)
Net (loss)/profit		(731,849)	2,030,862	998,692	12,246,578
(Loss)/profit per Ordinary Share					
Basic	9	GBP (0.02)	EUR 0.05		GBP 0.36
Diluted	9	GBP (0.02)	EUR 0.05		GBP 0.36
Weighted average Ordinary Shares outstanding		**Number**	**Number**		**Number**
Basic	9	39,966,985	39,966,985		33,835,064
Diluted	9	39,966,985	39,966,985		33,835,064

* As disclosed in Note 1 and Note 24 to these financial statements, the Company converted to a Protected Cell Company during the year. The ERII Cell financial statements refer to the period from 11 August 2011 (Date of Conversion) to 31 March 2012.

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

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

Consolidated Statement of Financial Position

As at 31 March 2012

	Note	RECI Core 31-Mar-2012 GBP	ERII Cell 31-Mar-2012 EUR	Total 31-Mar-2012 GBP
Non-current assets				
Investments at fair value through profit or loss	7,11	86,254,269	17,841,069	101,124,516
		86,254,269	17,841,069	101,124,516
Current assets				
Cash and cash equivalents		2,847,787	3,671,833	5,908,201
Derivative financial assets - options held for trading	7,13	2,453,717	-	2,453,717
Derivative financial assets - unrealised gain on credit default swaps	7,13	485,444	-	485,444
Derivative financial assets - unrealised gain on interest rate swap agreements	7,13	37,872	-	37,872
Derivative financial assets - unrealised gain on forward foreign exchange contracts	7,13	31,427	-	31,427
Other assets	12	559,224	1,283,650	1,629,126
		6,415,471	4,955,483	10,545,787
Total assets		92,669,740	22,796,552	111,670,303
Equity and liabilities				
Equity				
Reserves	19	43,974,682	22,238,152	62,509,828
		43,974,682	22,238,152	62,509,828
Current liabilities				
Derivative financial liabilities - options held for trading	7,13	820,269	-	820,269
Derivative financial liabilities - unrealised loss on forward foreign exchange contracts	7,13	295	-	295
Derivative financial liabilities - unrealised loss on total return equity swaps	7,13	39,632	-	39,632
Other liabilities	17	1,282,256	558,400	1,747,673
		2,142,452	558,400	2,607,869
Non-current liabilities				
Preference Shares	18	46,552,606	-	46,552,606
Total liabilities		48,695,058	558,400	49,160,475
Total equity and liabilities		92,669,740	22,796,552	111,670,303
Shares outstanding		39,966,985	39,966,985	
Net asset value per share		GBP 1.10	EUR 0.56	

The accompanying notes form an integral part of the consolidated financial statements. These financial statements were approved by the Board of Directors on 6 June 2012.

Signed on behalf of the Board of Directors by:

Christopher Spencer
Director

John Hawkins
Director

Consolidated Statement of Financial Position

As at 31 March 2011

	Note	Total 31-Mar-2011 GBP Represented	Total 1-Apr-2010 GBP Represented
Non-current assets			
Investments at fair value through profit or loss	7,11	109,914,383	81,680,276
		109,914,383	81,680,276
Current assets			
Cash and cash equivalents		5,915,587	14,021,554
Derivative financial assets - options held for trading	7,13	1,157,721	269,041
Derivative financial assets - unrealised gain on interest rate swap agreements	7,13	163,753	2,160,358
Other assets	12	2,280,842	1,228,174
		9,517,903	17,679,127
Total assets		**119,432,286**	**99,359,403**
Equity and liabilities			
Equity			
Reserves	19	67,808,829	88,603,798
		67,808,829	88,603,798
Current liabilities			
Distribution payable	8	566,128	1,901,397
Derivative financial liabilities - options held for trading	7,13	210,038	45,769
Derivative financial liabilities - unrealised loss on forward foreign exchange contracts	7,13	82,054	-
Other liabilities	17	1,927,670	1,098,775
		2,785,890	3,045,941
Non-current liabilities			
Preference Shares	18	48,837,567	-
Loans	14	-	7,709,664
Total liabilities		51,623,457	10,755,605
Total equity and liabilities		**119,432,286**	**99,359,403**
Shares outstanding		33,835,064	26,644,657
Net asset value per share		GBP 3.53	GBP 3.73

Consolidated Statement of Changes in Equity

For the year ended 31 March 2012

	Note	Total Represented GBP
Balance at 31 March 2010 - represented		**88,603,798**
Net profit for the year		12,246,578
Issue of Ordinary Shares of the Company	18	22,203,735
Issue of Preference Shares of the Company	18	(49,958,704)
Share issuance expenses allocated to the Ordinary Shareholders	18	(608,329)
Distribution to the Ordinary Shareholders of the Company	8	(5,685,474)
Foreign currency translation adjustment	2	1,007,225
Balance at 31 March 2011 - represented		**67,808,829**

	Note	RECI Core GBP	ERII Cell* EUR	Total GBP
Balance at 31 March 2011 - represented		**67,808,829**	**-**	**67,808,829**
Transfer of assets	1,24	(18,690,263)	21,246,432	-
Net (loss)/profit for the year/period		(731,849)	2,030,862	998,692
Distribution to the Ordinary Shareholders of the Company	8	(1,666,567)	(1,039,142)	(2,536,258)
Foreign currency translation adjustment	2	(2,745,468)	-	(3,761,435)
Balance at 31 March 2012		**43,974,682**	**22,238,152**	**62,509,828**

* As disclosed in Note 1 and Note 24 to these financial statements, the Company converted to a Protected Cell Company during the year. The ERII Cell financial statements refer to the period from 11 August 2011 (Date of Conversion) to 31 March 2012.

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

Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	Note	RECI Core 31-Mar-2012 GBP	ERII Cell* 31-Mar-2012 EUR	Total 31-Mar-2012 GBP	Total 31-Mar-2011 GBP Represented
Net cash provided by/(used in) operating activities	20	240,337	3,201,342	2,969,439	(14,317,050)
Financing activities					
Net repayment of borrowings from loans		-	-	-	(7,709,664)
Issue of Ordinary Shares		-	-	-	22,203,735
Share issuance expenses		-	-	-	(1,735,490)
Dividends paid to Ordinary Shareholders		(2,232,695)	(1,039,142)	(3,102,386)	(7,020,743)
Repurchase of Preference Shares		(2,618,469)	-	(2,618,469)	-
Cash flows (used in)/provided by financing activities		(4,851,164)	(1,039,142)	(5,720,855)	5,737,838
Net (decrease)/increase in cash and cash equivalents		(4,610,827)	2,162,200	(2,751,416)	(8,579,212)
Reconciliation of net cash flow to movement in net cash					
Net (decrease)/increase in cash and cash equivalents		(4,610,827)	2,162,200	(2,751,416)	(8,579,212)
Cash and cash equivalents at start of year/period		5,915,587	-	5,915,587	14,021,554
Transfer of cash	1	(1,304,730)	1,500,000	-	-
Effect of exchange rate fluctuations on cash and cash equivalents		2,847,757	9,633	2,744,030	473,245
Cash and cash equivalents at end of year/period		2,847,787	3,671,833	5,908,201	5,915,587

* As disclosed in Note 1 and Note 24 to these financial statements, the Company converted to a Protected Cell Company during the year. The ERII Cell financial statements refer to the period from 11 August 2011 (Date of Conversion) to 31 March 2012.

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

Notes to the Consolidated Financial Statements
For the year ended 31 March 2012

1. General information

Real Estate Credit Investments PCC Limited (formerly Real Estate Credit Investments Limited) (the "Company") was registered on 6 September 2005 with registered number 43634 and is domiciled in Guernsey, Channel Islands. The Company commenced its operations on 8 December 2005. The Company is an authorised closed-ended protected cell 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 shares of the Cell have a separate listing on the Specialist Fund Market of the London Stock Exchange. 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 2012, the Company's only subsidiary is Trebuchet Finance Limited.

On 10 August 2011, following an extraordinary meeting of the Company, the Board of Directors announced the conversion of the Company to a protected cell company ("PCC") under Guernsey Law and the creation of one cell known as European Residual Income Investments Cell (the "Cell" or "ERII Cell"). The majority of the Residual Income Positions, together with cash amounting to EUR 1.5 million, were transferred to the Cell whose Shares have a separate listing on the Specialist Fund Market of the London Stock Exchange. The existing Ordinary Shareholders of the Company at the date of conversion were given shares in the Cell on a pro-rata one for one basis. The Company's Real Estate Debt Investments continue to be held by the non-cellular remainder of the Company (the "Core" or "RECI Core") and the Core's Ordinary Shares continue to have a premium listing on the London Stock Exchange. The Residual Income Position retained in the Core on conversion was redeemed on 25 August 2011. Following from this conversion, the name of the Company was changed to Real Estate Credit Investments PCC Limited on 15 August 2011.

Prior to the conversion, the Group's investment objective was 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 sought to achieve this objective by investing primarily in debt instruments secured by commercial or residential properties in Western Europe and the United Kingdom ("Real Estate Debt Investments").

Following conversion, the investment policy of the Company was sub-divided into an investment policy for the Core and an investment policy for the Cell. This was to reflect the fact that the Investment Manager is responsible for managing two discrete pools of assets, one, represented by the Core, into which Existing Ordinary Shareholders are invested and one, represented by the Cell, into which Cell Shareholders are invested.

The investment objective for the Core is to 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 be likely to 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 investment objective of the Cell is to hold the Cell Assets comprising of Residual Income Positions, until maturity of the assets unless opportunities for the sale of the Cell Assets arise prior to maturity. The Directors may, at their discretion, return cash to Cell Shareholders by dividends or other distribution subject to satisfying the Preference Share Cover Test detailed below. The Directors may also, at their discretion, effect a mandatory redemption of Cell Shares as a means of returning capital to the Cell Shareholders.

Effective 1 October 2011, the trading denomination of the Company's Core Ordinary Shares of no par value was changed to British Pound ("GBP"). The Company reviewed its functional and presentation currencies and the Company and Core also changed its functional and presentation currency to GBP prospectively from that date. The Cell's functional and presentation currency remained the Euro (see Note 2 for further information).

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2012

1. General information (continued)

The liabilities in relation to the Preference Shares, being both quarterly Preference Dividends and the repayment of the final capital entitlement of the Preference Shares (the "Final Capital Entitlement"), are borne by the Company. The Company has amended the Articles of Incorporation to protect the ability of the Company to meet the Final Capital Entitlement through the introduction of a cover test (the "Preference Share Cover Test"). The Preference Share Cover Test is intended to prevent the erosion of the Company's asset base through the payment of dividends or other distributions from the Cell. Prior to the payment of dividends or other distributions from the Cell, the Preference Share Cover Test will need to be satisfied.

The Preference Share Cover Ratio is the ratio that the Company, in consultation with the Investment Manager, has determined is sufficient to meet the Final Capital Entitlement. The Preference Share Cover Ratio is calculated based on the ratio of total Company assets (i.e. Total Core Assets plus Cell Assets) to the Final Capital Entitlement. The Preference Share Cover Test has been set at 2.39.

Notwithstanding the Company's ability to satisfy the Preference Share Cover Test, the Company will continue to fulfil its obligations towards the Preference Shareholders with respect to the distribution of Preference Dividends. Such obligations are met using the income available in the Core and, if necessary, the Core Assets themselves. Should the Core Assets be insufficient to meet the Company's liabilities in respect of Preference Dividends and/or the Final Capital Entitlement when they fall due, it is intended that the Directors will call upon the income and, where such income is insufficient to satisfy such liabilities, the assets of the Cell to satisfy the liabilities (the "Inter-Cellular Arrangement").

The Group's investment management activities are managed by 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 if applicable a quarterly performance-related fee on the Core. The Company and the Investment Manger agreed that, following conversion, an Incentive Fee will no longer be charged on the Cell Assets. The Group has no ownership interest in the Investment Manager. State Street (Guernsey) Limited is the 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.

Standards and Amendments to Existing Standards Effective 1 January 2011

The amendment to IAS 24, "Related party disclosures", clarifies the definitions of a related party. The new definition clarifies in which circumstances persons and key management personnel affect related party relationships of an entity. The amendment also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

2. Significant accounting policies (continued)

Standards and Amendments to Existing Standards Effective 1 January 2011 (continued)
IFRS 7 (amendment) "Financial instruments: Disclosures". This amendment was part of the IASB's annual improvement project published in May 2010. The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. Adoption of this amendment did not have a significant impact on the Group's financial statements.

Improvements to IFRS were issued in May 2010 and contain several amendments to IFRS, which the IASB considers non-urgent but necessary. Improvements to IFRS comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. No material changes to accounting policies occurred as a result of these amendments.

There are no other standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the Group.

New standards, amendments and interpretations issued but not yet effective and not early adopted
IFRS 9 "Financial Instruments", effective for annual periods beginning on or after 1 January 2015, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Most of the requirements of IAS 39 for classification and measurement of financial liabilities were carried forward unchanged. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The standard is not expected to have a significant impact on the Group's financial position or performance, as it is expected that the Group will continue to classify its financial assets and financial liabilities (both long and short) as being at fair value through profit or loss.

IFRS 10, "Consolidated financial statements", effective for annual periods beginning on or after 1 January 2013, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard is not expected to have any impact on the Group's financial position or performance.

IFRS 11, "Joint Arrangements", is effective for annual periods beginning on or after 1 January 2013. The standard establishes principles for financial reporting by parties to a joint arrangement. The standard is not expected to have any impact on the Group's financial position or performance.

IFRS 12, "Disclosure of interests in other entities", effective for annual periods beginning on or after 1 January 2013, includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is not expected to have any impact on the Group's financial position or performance.

IFRS 13, "Fair Value Measurement", effective for annual periods beginning on or after 1 January 2013. The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The standard is not expected to have any impact on the Group's financial position or performance.

2. Significant accounting policies (continued)

New standards, amendments and interpretations issued but not yet effective (continued)
If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Group.

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 principal accounting policies of the Group have been applied consistently during the year and are consistent with those used in the prior year, with the exception of the changes in the functional and presentation currency as outlined below.

Changes in functional and presentation currency

Effective 1 October 2011, the Company changed its functional and presentation currency from Euro to British Pounds (“GBP”). These consolidated financial statements are presented in GBP 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 GBP. This is a change in the functional currency from the prior year.

Prior to 1 October 2011, the Group reported its annual, interim and quarterly Consolidated Statements of Financial Position and related Consolidated Statements of Comprehensive Income, Consolidated Statements of Cash Flows and Consolidated Statements of Changes in Equity in Euro. In making this change in functional and presentation currency, the Group followed the recommendations set out in IAS 21, The Effects of Changes in Foreign Exchange Rates. In accordance with IAS 21, the Consolidated Statements of Comprehensive Income for all years presented have been translated into the new presentation currency using the average exchange rates prevailing during each reporting period. All assets and liabilities have been translated using the exchange rate prevailing at the Consolidated Statement of Financial Position dates. Shareholders’ equity transactions have been translated using the rates of exchange in effect as of the dates of the various capital transactions. All resulting exchange differences arising from the translation are included in the Consolidated Statement of Changes in Equity. All comparative financial information has been restated to reflect the Group’s results as if they had been historically reported in GBP and the effect on the consolidated financial statements resulted in an accumulated foreign exchange adjustment in the Statement of Changes in Equity of GBP 2,745,468. Hence a Statement of Financial Position of the Group of the earliest comparative period is presented in accordance with IAS 1.

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 of the Group’s Preference Shares, the Directors have taken into account the current cash balance, the forecast cash inflows and outflows from the investments and operating expenses. The Directors note the cash resources available at 31 March 2012 (GBP 5.9m), some of which will be used to pay the proposed dividend, are sufficient to cover normal operational costs and current liabilities as they fall due for the foreseeable future.

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 2012, 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 Income Positions and Real Estate Debt Investments 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.

2. Significant accounting policies (continued)

Derivative financial instruments

The fair value of credit default swaps is the net present value of all future cash flows of the fixed side of the swap discounted to their present value using the appropriate interest rate and all future cashflows of the default side of the swap are discounted to the default payer. This cost is determined by the recovery rate, notional amount of the contract and default probability among other factors.

The fair value of a total return equity swap is based on the fair value of the underlying portfolio of equity securities and costs of the associated funding leg. The fair value of the underlying reference assets are based on quoted prices received from brokers at the reporting date without deduction for any selling costs. The net income or expense on the TRS agreement is reflected in the Statement of Comprehensive Income. Unrealised gains are reported as an asset and unrealised losses are reported as a liability in the Statement of Financial Position.

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.

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.

2. Significant accounting policies (continued)

Derecognition of 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.

Preference Shares
The value of the Preference Shares represent an obligation on the Group to pay the Preference Share's 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 consolidated financial statements. The amortisation of the Preference Shares are 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 are 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 accrual basis.

Treasury Shares
Where the Company purchases the Company's shares in issue (Ordinary, Preference and Cell Shares), the consideration paid is deducted from the total Equity in the case of Ordinary and Cell Shares and from the total Preference Shares liability in the case of Preference Shares and classified as Treasury Shares until they are cancelled. Where such shares are subsequently sold or reissued any consideration received is included in total Equity or Preference Share liability as the case may be.

Functional and presentation currency
Effective 1 October 2011 the functional and presentation currency of the Company and Core changed from the Euro to GBP. The Cell's functional and presentation currency remained the Euro. The GBP is considered the functional and presentation currency of the Company and the Core because it is the currency of the primary economic environment in which the Company and Core operates and therefore the financial statements have been prepared in GBP. Following the change in the functional and presentation currency from Euro to GBP, the 2011 comparative figures have been restated to GBP which gives a GBP1,007,225 adjustment on foreign exchange translation. Hence a Statement of Financial Position at the beginning of the earliest comparative period is presented in accordance with IAS 1.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2012

2. Significant accounting policies (continued)

Functional and presentation currency (continued)
The audited financial statements as of and for the year ended 31 March 2010 and 31 March 2011 were prepared in Euro. All 2010 and 2011 references included herein were calculated by translating the 2010 and 2011 Euro amounts at the 31 March 2010 and 31 March 2011 exchange rate respectively. The year end exchange rate was used for the Consolidated Statements of Financial Position, the average exchange rate for the Consolidated Statements of Comprehensive Income and Capital Transactions were translated using the exchange rate on the date of the transaction. The Consolidated Statement of Cash Flows were converted using a combination of the rate of exchange in effect as of the dates of the various cash transactions and the average exchange rate.

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 GBP 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 GBP 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.

Investment in Joint Venture
Investments in joint ventures are accounted for at fair value under the fair value option available under IAS 31 – Interests in Joint Ventures.

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 were necessary to implement the Placing and Open Offer and the Bonus Issue. Such expenses included 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 are amortised over the remaining life of the Preference Shares 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

2. Significant accounting policies (continued)

Expenses

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

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 and Shares in relation to the ERII Cell 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

The Group has two reportable segments, being the Core and the Cell. This is a change in the reportable segments since the previous financial year where the reportable segments were the Real Estate Debt Investment Portfolio and the Residuals Income Positions Portfolio. As disclosed in Note 1 and Note 24, the Company converted to a Protected Cell Company with the creation of one cell, the ERII Cell. The Company’s Real Estate Debt Investments remained in the non-cellular remainder of the Company, being the Core. Each of the Residual Income Positions with the exception of Amstel, were transferred into the Cell with the objective of holding these investments until the earlier of maturity of the coupons or sale. Amstel remained in the Core as the redemption of this investment was imminent. Following the redemption of Amstel and as at 31 March 2012, the Core only holds Real Estate Debt Investments. 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 using the 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.

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.

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

Income recognition of Residual Income Positions and bonds (continued)
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.

The Core also invests in real estate loans via its interest in a jointly controlled entity in which it holds both ordinary and preference shares. The jointly controlled entity is primarily funded via its preference shares. The Core receives a fixed interest income on its preference shares from the income earned by the jointly controlled entity on its fixed rate loans.

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 2012 quoted bid prices were not available for any of the Group’s residual portfolio investments.

The Core’s investments in real estate loans via an interest in a jointly controlled entity are measured at fair value. The Core has exposure to these real estate loans via its ordinary and preference share holding. The fair value of the Core’s ordinary and preference share holdings are linked directly to the value of the real estate loans the jointly controlled entity invests in which are measured at amortised cost less any impairment in its accounting records. These loans have less than one year maturity and are secured on residential properties with low loan to value ratios (weighted average of 61% as at 31 March 2012), and have had no credit events to suggest they will not repay at par. The loans are not expected to be sold prior to maturity above par. Hence the expectation is that these loans will repay in the near term at par, and therefore the amortised cost of these underlying loans at 31 March 2012 approximate their fair value.

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. 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 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 7. 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

4. Net gains and losses on financial assets and liabilities at fair value through profit or loss

	RECI Core 31-Mar-12 GBP	ERII Cell* 31-Mar-12 EUR	Total 31-Mar-12 GBP	Total 31-Mar-11 GBP Represented
Net realised (losses)/gains				
Net realised (losses)/gains on investments at fair value through profit or loss	(6,378,673)	(193,009)	(6,543,140)	5,406,438
Net realised losses on options	(835,259)	-	(835,259)	(647,385)
Net realised gains/(losses) on foreign exchange instruments	168,572	141,734	289,347	(1,110,873)
Net realised (losses)/gains	(7,045,360)	(51,275)	(7,089,052)	3,648,180

	RECI Core 31-Mar-12 GBP	ERII Cell* 31-Mar-12 EUR	Total 31-Mar-12 GBP	Total 31-Mar-11 GBP Represented
Net movement in unrealised gains/(losses)				
Net movement in unrealised (losses)/gains on investments at fair value through profit or loss	192,637	(349,632)	(105,292)	3,178,353
Net movement in unrealised losses on credit default swaps	(3,113)	-	(3,113)	-
Net movement in unrealised losses on interest rate swap agreements	(84,286)	-	(84,286)	(1,900,452)
Net movement in unrealised gains/(losses) on options	1,179,419	-	1,179,419	(300,013)
Net movement in unrealised gains on foreign exchange bank balances	105,402	9,633	113,610	11,197
Net movement in unrealised gains/(losses) on foreign exchange instruments	70,912	-	70,912	(78,743)
Net movement in unrealised gains/(losses)	1,460,971	(339,999)	1,171,250	910,342
Net realised and movement in unrealised (losses)/gains	(5,584,389)	(391,274)	(5,917,802)	4,558,522

* The ERII Cell financial statements refer to the period from 11 August 2011 (Date of Conversion) to 31 March 2012.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

5. Operating expenses

	Note	RECI Core 31-Mar-12 GBP	ERII Cell* 31-Mar-12 EUR	Total 31-Mar-12 GBP	Total 31-Mar-11 GBP Represented
Investment management, custodian and administration fees					
Investment management fee	23	1,774,513	256,621	1,993,185	1,742,562
Administration fee	23	175,552	45,462	214,291	167,926
Custodian fee	23	24,951	-	24,951	31,044
		1,975,016	302,083	2,232,427	1,941,532
Other operating expenses					
Audit fees		150,202	84,811	222,471	144,430
Directors' fees payable to Directors of Real Estate Credit Investments PCC Limited		198,128	29,915	223,619	220,892
Directors' fees payable to Directors of Trebuchet Finance Limited		20,639	3,116	23,294	21,240
Legal fees		320,560	53,585	366,221	588,439
Pricing expenses		122,469	5,324	127,006	81,546
Other expenses		147,049	107,800	238,908	460,225
		959,047	284,551	1,201,519	1,516,772
Total operating expenses		2,934,063	586,634	3,433,946	3,458,304

The Group has no employees.

6. Interest income and finance costs

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

	RECI Core 31-Mar-12 GBP	ERII Cell* 31-Mar-12 EUR	Total 31-Mar-12 GBP	Total 31-Mar-11 GBP Represented
Interest income				
Investments designated at fair value through profit or loss upon initial recognition	11,640,749	3,007,527	14,203,527	13,318,348
Loans and receivables (including cash and cash equivalents)	13,734	1,243	14,793	5,943
Total interest income	11,654,483	3,008,770	14,218,320	13,324,291
Finance costs:				
Interest on loan	-	-	-	2,967
Gain on repurchase of Preference Shares of the Company	(202,433)	-	(202,433)	-
Preference Shares issuance expense amortised	130,035	-	130,035	76,136
Dividend paid to Preference Shareholders (Note 8)	3,940,278	-	3,940,278	2,098,828
Total finance costs	3,867,880	-	3,867,880	2,177,931

* The ERII Cell financial statements refer to the period from 11 August 2011 (Date of Conversion) to 31 March 2012.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

7. Categories of financial instruments

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

	RECI Core 31-Mar-12 GBP	ERII Cell* 31-Mar-12 EUR	Total 31-Mar-12 GBP	Total 31-Mar-11 GBP Represented	Total 1-Apr-10 GBP Represented
Assets					
Financial assets designated at fair value through profit or loss:					
Investments	86,254,269	17,841,069	101,124,516	109,914,383	81,680,276
Derivative financial assets held for trading					
Call and put options	2,453,717	-	2,453,717	1,157,721	269,041
Forward foreign exchange contracts	31,427	-	31,427		
Credit default swaps	485,444	-	485,444	-	-
Interest rate swap agreements	37,872	-	37,872	163,753	2,160,358
Loans and receivables:					
Cash and cash equivalents	2,847,787	3,671,833	5,908,201	5,915,587	14,021,554
Other assets	559,224	1,283,650	1,629,126	2,280,842	1,228,174
Total assets	**92,669,740**	**22,796,552**	**111,670,303**	**119,432,286**	**99,359,403**
Liabilities					
Derivative financial liabilities held for trading					
Call and put options	820,269	-	820,269	210,038	45,769
Forward foreign exchange contracts	295	-	295	82,054	-
Total return equity swaps	39,632	-	39,632	-	-
Liabilities held at amortised cost:					
Other liabilities	1,282,256	558,400	1,747,673	2,493,798	3,000,172
Preference Shares	46,552,606	-	46,552,606	48,837,567	-
Loans	-	-	-	-	7,709,664
Total liabilities	**48,695,058**	**558,400**	**49,160,475**	**51,623,457**	**10,755,605**

* The ERII Cell financial statements refer to the period from 11 August 2011 (Date of Conversion) to 31 March 2012.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

8. Dividends

Ordinary Share Dividends	**RECI Core 31-Mar-12 GBP**	**ERII Cell 31-Mar-12 EUR**	**Total 31-Mar-12 GBP**	**Total 31-Mar-11 GBP Represented**
Final dividend for the year ended 31 March 2010	-	-	-	1,937,587
First interim dividend for the year ended 31 March 2011	-	-	-	3,191,852
Second interim dividend for the year ended 31 March 2011	-	-	-	556,035
Final dividend for the year ended 31 March 2011	490,803	-	490,803	-
First interim dividend for the year ended 31 March 2012	488,332	1,039,142	1,358,023	-
Second interim dividend for the year ended 31 March 2012	343,716	-	343,716	-
Third interim dividend for the year ended 31 March 2012	343,716	-	343,716	
Amounts recognised as distributions to Ordinary Equity Holders in the year	1,666,567	1,039,142	2,536,258	5,685,474

	RECI Core 31-Mar-12 GBP per share	**ERII Cell 31-Mar-12 EUR per share**	**Total 31-Mar-12 GBP per share**	**Total 31-Mar-11 GBP per share Represented**
Final dividend for the year ended 31 March 2010	-	-	-	0.0727
First interim dividend for the year ended 31 March 2011	-	-	-	0.1198
Second interim dividend for the year ended 31 March 2011	-	-	-	0.0139
Final dividend for the year ended 31 March 2011	0.0123	-	0.0123	-
First interim dividend for the year ended 31 March 2012	0.0122	0.026	0.0340	-
Second interim dividend for the year ended 31 March 2012	0.0086	-	0.0086	-
Third interim dividend for the year ended 31 March 2012	0.0086	-	0.0086	-
Amounts recognised as distributions to Ordinary Equity Holders in the year	0.0417	0.026	0.0635	0.2064

The final dividend for the year ended 31 March 2011 of GBP 0.0123 per share was declared on 16 June 2011 and an amount of GBP 490,803 was paid on 22 July 2011.

A first interim dividend in relation to Ordinary Shares for the year ended 31 March 2012 of GBP 0.0122 per share was declared on 16 September 2011 and an amount of GBP 488,332 was paid on 21 October 2011. A second interim dividend in relation to Ordinary Shares for the year ended 31 March 2012 of GBP 0.0086 per share was declared on 9 December 2011 and an amount of GBP 343,716 was paid on 29 December 2011. A third interim dividend in relation to Ordinary Shares for the year ended 31 March 2012 of GBP 0.0086 per share was declared on 9 March 2012 and an amount of GBP 343,716 was paid on 30 March 2012.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2012

8. Dividends (continued)

Ordinary Share Dividends (continued)
A first interim dividend in relation to Cell Shares for the year ended 31 March 2012 of EUR 0.026 per share was declared on 9 December 2011 and an amount of EUR 1,039,142 was paid on 29 December 2011.

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 2012.

The Preference Share Cover Test is intended to prevent the erosion of the Company's asset base through the payment of dividends or other distributions out of the Cell. Prior to the Company declaring a dividend or making a distribution (including for these purposes a redemption) to holders of Cell Shares, the Preference Share Cover Test will also need to be satisfied.

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.

Preference Share Dividends	**Payment Date**	**31 March 2012 GBP**	**31-March 2011 GBP Represented**
Preference Dividend for period 15 September 2010 to 31 December 2010	31-Dec-10	-	1,139,321
Period 1 January 2011 to 31 March 2011	31-Mar-11	-	959,507
Period 1 April 2011 to 30 June 2011	30-Jun-11	999,174	-
Period 1 July 2011 to 30 September 2011	30-Sept-11	999,174	-
Period 1 October 2011 to 31 December 2011	31-Dec-11	999,174	-
Period 1 January 2012 to 31 March 2012	30-Mar-12	942,756	-
Total distributions to Preference Shareholders		3,940,278	2,098,828

9. Profit per Ordinary Share

	RECI Core 31-Mar-12 GBP	**ERII Cell 31-Mar-12 EUR**	**Total 31-Mar-11 GBP Represented**
The calculation of the basic and diluted earnings per share is based on the following data:			
(Loss)/profit for the purposes of basic earnings per share being net (loss)/profit attributable to equity holders	(731,849)	2,030,862	12,246,578
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	39,966,985	39,966,985	33,835,064
Effect of dilutive potential Ordinary Shares:			
Share options	-	-	-
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	39,966,985	39,966,985	33,835,064

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

9. Profit per Ordinary Share (continued)

There is no dilution as at 31 March 2012 or 31 March 2011 as the share price was below the option price (see Note 23) on that date.

10. Subsidiary

Trebuchet Finance Limited was incorporated in Ireland on 19 May 2005 and as at 31 March 2012, 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 2012, one of the Directors of the Company was a Director 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 at fair value through profit or loss:

	RECI Core 31-Mar-12 GBP	ERII Cell 31-Mar-12 EUR	Total 31-Mar-12 GBP	Total 31-Mar-11 GBP Represented	Total 1-Apr-10 GBP Represented
Investments at fair value through profit or loss:					
Investment in joint venture	4,006,266	-	4,006,266	-	-
Real Estate Debt Investments	82,248,003	-	82,248,003	62,585,608	12,144,685
Residual Income Positions	-	17,841,069	14,870,277	47,328,775	69,535,591
Total investments at fair value through profit and loss	86,254,269	17,841,069	101,124,546	109,914,383	81,680,276

See Note 16 for a summary of the movement in fair value in the Group's investments for the year, analysed by the Core and Cell.

12. Other assets

	RECI Core 31-Mar-12 GBP	ERII Cell 31-Mar-12 EUR	Total 31-Mar-12 GBP	Total 31-Mar-11 GBP Represented	Total 1-Apr-10 GBP Represented
Interest receivable on investment portfolio	559,224	951,263	1,352,087	1,563,303	783,116
Receivable for investments sold	-	-	-	493,621	292,786
Interest receivable on cash and cash equivalents	-	-	-	223,918	152,272
Other assets	-	332,387	277,039	-	-
	559,224	1,283,650	1,629,126	2,280,842	1,228,174

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

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

13. Derivative contracts

Options:

The following options contracts were open as at 31 March 2012:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Fair Value GBP
Options purchased						
Goldman Sachs	14 Sept 2017	EUR Put GBP Call	GBP	12,500,000	GBP 0.9108	1,444,800
Goldman Sachs	14 Sept 2017	EUR Call GBP Put	GBP	12,500,000	GBP 0.9775	431,125
Goldman Sachs	2 Oct 2012	EUR Put GBP Call	EUR	25,000,000	GBP 0.8450	572,645
Goldman Sachs	2 Oct 2012	EUR Call GBP Put	EUR	25,000,000	GBP 0.9620	5,147
Options purchased at fair value						2,453,717
Options written						
Goldman Sachs	2 Oct 2012	EUR Call GBP Put	EUR	25,000,000	GBP 0.8450	(107,332)
Goldman Sachs	14 Sept 2017	EUR Call GBP Put	GBP	12,500,000	GBP 0.9108	(712,937)
Options written at fair value						(820,269)

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

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Fair Value GBP Represented
Options purchased						
JP Morgan	31 Dec 2011	EUR Call GBP Put	EUR	14,000,000	EUR 0.9315	214,582
Goldman Sachs	31 Dec 2011	EUR Call GBP Put	GBP	14,000,000	EUR 1.300	364
Goldman Sachs	18 Sep 2017	EUR Put GBP Call	GBP	12,500,000	EUR 0.8333	942,775
Options purchased at fair value						1,157,721
Options written						
JP Morgan	31 Dec 2011	EUR Call GBP Put	EUR	14,000,000	EUR 1.300	(359)
Goldman Sachs	31 Dec 2011	EUR Call GBP Put	GBP	14,000,000	EUR 0.9315	(209,679)
Options written at fair value						(210,038)

The following options contracts were open as at 1 April 2010:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Fair Value GBP Represented
Options purchased						
Goldman Sachs	31 Dec 2011	EUR Call GBP Put	GBP	10,000,000	EUR 0.9315	269,041
Options purchased at fair value						269,041
Options written						
Goldman Sachs	31 Dec 2011	EUR Call GBP Put	GBP	10,000,000	EUR 1.300	(45,769)
Options written at fair value						(45,769)

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2012

13. Derivative contracts (continued)

Total return equity swap:

The following total return equity swap was held at 31 March 2012:

31 March 2012

Counterparty	Notional Amount (GBP)	Reference Entity	Termination Date	Unrealised Gain/(Loss) GBP
Deutsche Bank	16,000,000	IPD Property Index	31 March 2013	(39,632)

The Group did not hold total return equity swaps at 31 March 2011 or 1 April 2010.

Credit default swaps:

The following credit default swaps were held at 31 March 2012:

31 March 2012

Counterparty	Notional Amount (EUR)	Reference Entity	Termination Date	Unrealised Gain/(Loss) GBP
Goldman Sachs	50,000,000	iTraxx Main	20 June 2017	485,444

The Group did not hold credit default swaps at 31 March 2011 or 1 April 2010.

Forward foreign exchange contracts:

The following forward foreign exchange contracts were unsettled at 31 March 2012:

31 March 2012

Counterparty	Settlement Date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised Gain/(Loss) GBP
Goldman Sachs	29 June 2012	GBP	8,248,291	EUR	9,848,000	31,427
Goldman Sachs	29 June 2012	EUR	2,500,000	GBP	2,086,218	(295)

The following forward foreign exchange contracts were unsettled at 31 March 2011:

31 March 2011

Counterparty	Settlement Date	Buy currency	Buy amount	Sell currency	Sell amount	Unrealised Gain/(Loss) GBP
Goldman Sachs	30 June 2011	GBP	4,500,000	EUR	5,178,366	(82,054)

The Group did not hold forward foreign exchange contracts at 1 April 2010.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

13. Derivative contracts (continued)

Interest rate swaps:

The following interest rate and balance guaranteed interest rate swaps were unsettled at 31 March 2012:

31 March 2012

Termination Date	Counterparty	Initial Notional Amount (GBP)	Unrealised Gain GBP
25 January 2013	Goldman Sachs	451,431	8,648
25 January 2013	Goldman Sachs	1,226,713	29,224
			37,872

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

31 March 2011

Termination Date	Counterparty	Initial Notional Amount (GBP)	Unrealised Gain GBP Represented
25 January 2013	Goldman Sachs	451,431	8,753
15 October 2011	Goldman Sachs	5,500,000	49,764
15 November 2011	Goldman Sachs	1,300,000	11,073
25 January 2013	Goldman Sachs	1,226,713	45,062
15 October 2011	Goldman Sachs	2,800,000	34,509
12 September 2011	Goldman Sachs	1,700,000	14,592
			163,753

The following interest rate and balance guaranteed interest rate swaps were unsettled at 1 April 2010:

1 April 2010

Termination Date	Counterparty	Initial Notional Amount (GBP)	Unrealised Gain GBP Represented
25 January 2013	Goldman Sachs	451,431	19,410
15 October 2011	Goldman Sachs	5,500,000	145,459
15 November 2011	Goldman Sachs	1,300,000	33,427
25 January 2013	Goldman Sachs	1,226,713	58,822
15 October 2011	Goldman Sachs	3,000,000	78,976
12 September 2011	Goldman Sachs	1,700,000	40,349
27 March 2011	Goldman Sachs	17,348,100	573,513
15 January 2011	Goldman Sachs	9,700,584	294,717
15 February 2011	Goldman Sachs	27,568,395	915,685
			2,160,358

14. Loans

	Total 31-Mar-12 GBP	Total 31-Mar-11 GBP Represented	Total 1-Apr-10 GBP Represented
Loans	-	-	7,709,664

On 6 April 2010 the Company paid back the remaining GBP 7,709,664 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 Core and the Cell's investment objectives detailed in Note 1 which in respect of the Core is to invest primarily in debt secured by commercial or residential properties in Western Europe and the United Kingdom, and in respect of the Cell is to hold Cell Assets until maturity of the assets unless opportunities for the sale of the Cell Assets arise prior to maturity. As the Core and the Cell have different investment objectives, the risk management approach for the Core and Cell may vary and will be presented separately below.

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

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.

15. Financial instruments (continued)

(a) Market risk (continued)

(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 Core is exposed to currency risk to the extent that foreign exchange rates fluctuate as it has financial instruments that are denominated in currencies other than GBP.

The Core has elected to hedge its foreign exchange exposure through a mixture of currency options and forward foreign currency exchange contracts. These instruments are detailed in Note 7.

The currency profile of the Core, including derivatives, at 31 March 2012 was as follows:

Core	**Net currency exposure (in GBP)**	**Monetary Assets (in GBP)**	**Non-Monetary Assets (in GBP)**	**Monetary Liabilities (in GBP)**	**Non-Monetary Liabilities (in GBP)**
GBP	10,675,159	60,459,019	401,831	(49,391,393)	(794,298)
EUR	33,233,016	41,919,204	157,393	(8,355,623)	(487,958)
USD	66,507	66,507	-	-	-
	43,974,682	102,444,730	559,224	(57,747,016)	(1,282,256)

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

The currency profile of the Cell, including derivatives, at 31 March 2012 was as follows:

Cell	**Net currency exposure (in EUR)**	**Monetary Assets (in EUR)**	**Non-Monetary Assets (in EUR)**	**Monetary Liabilities (in EUR)**	**Non-Monetary Liabilities (in EUR)**
GBP	3,657,707	3,594,369	63,338	-	-
EUR	18,566,985	17,905,073	1,220,312	-	(558,400)
USD	13,460	13,460	-	-	-
	22,238,152	21,512,902	1,283,650	-	(558,400)

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2012

15. Financial instruments (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

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

	Net currency exposure (in GBP) Represented	Monetary Assets (in GBP) Represented	Non-Monetary Assets (in GBP) Represented	Monetary Liabilities (in GBP) Represented	Non-Monetary Liabilities (in GBP) Represented
GBP	(7,415,288)	41,185,866	479,563	(49,047,245)	(33,472)
EUR	75,202,170	80,446,012	1,834,753	(4,584,795)	(2,493,800)
USD	21,947	21,947	-	-	-
	67,808,829	121,653,825	2,314,316	(53,632,040)	(2,527,272)

At 31 March 2012, had the GBP or the Euro strengthened by 5% in relation to all currencies respectively, with all other variables held constant, equity of the Core and the Cell respectively and the net (loss)/profit per the Consolidated Statement of Comprehensive Income of the Core and Cell respectively would have changed by the amounts shown below. The analysis is performed on the same basis for 2011.

	Core 31- Mar 2012 GBP	Cell 31-Mar-2012 EUR	Group 31-Mar-2012 GBP	Group 31-Mar-2011 GBP Represented
EUR	(1,582,524)	N/A	(1,582,524)	(3,760,109)
GBP	N/A	(174,177)	(145,173)	N/A
USD	(3,167)	(641)	(3,701)	(1,097)
Total	(1,585,691)	(174,818)	(1,731,398)	(3,761,206)

A 5% weakening of the GBP and the Euro against the above currencies respectively would have resulted in an equal but opposite effect on the equity of the Core and the Cell respectively and net (loss)/profit per the Consolidated Statement of Comprehensive Income of the Core and the Cell respectively to the amounts shown above, on the basis that all other variables remained constant.

The Core/Cell structure was created in August 2011 and therefore the foreign currency analysis is shown in relation to the Group only at 31 March 2011. At 31 March 2011, the functional currency of the Group was Euro.

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.

As described above, following the conversion of the Company to a protected cell company, the Investment policy of the Company was sub-divided into an investment policy for the Core and an investment policy for the Cell. This is to reflect the fact that the Investment Manager is responsible for managing two discrete pools of assets, the Core being primarily invested in securitised tranches of real estate related debt securities or real estate loans, debentures or other form of debt instrument and the Cell being primarily invested in Residual Income Positions which it will hold until maturity unless opportunities for the sale of the assets arises. Despite the different nature of the investments being held in the Core and the Cell, the interest rate risk management approach is the same.

The Core invests primarily in floating rate real estate related debt securities which include RMBS or CMBS (together MBS). Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and liabilities and future cash flow. These floating rate debt investments will be exposed to interest rate risk through changes in interest rates potentially having an effect on prepayments and defaults of the underlying loans of the securitisations. These specific risks are discussed separately in Notes 15 (e) and 15 (f).

The Core also invests in real estate loans via its interest in a jointly controlled entity in which it holds both ordinary and preference shares. The jointly controlled entity is primarily funded via its preference shares. The Core receives a fixed interest income on its preference shares and is payable to the Core from the income earned by the jointly controlled entity on its fixed rate loan. These loans are bridge loans secured on residential properties with less than one year maturity, and are therefore less exposed to the wider effects of changes in interest rates having an effect on prepayments or defaults.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

15. Financial instruments (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The interest rate profile of the Core at 31 March 2012 was as follows:

	Fixed GBP	Floating GBP	Non-interest bearing GBP
Investments at fair value through profit or loss	-	86,254,269	-
Derivative financial assets			
- Options	-	-	2,453,717
- Credit default swaps	-	-	485,444
- Interest rate swaps	-	-	37,872
- Forward foreign exchange contracts	-	-	31,427
Other assets	-	-	559,224
Cash and cash equivalents	-	2,847,787	-
Preference shares	(46,552,606)	-	-
Derivative financial liabilities			
- Options	-	-	(820,269)
- Forward foreign exchange contracts	-	-	(295)
- Total equity return swaps	-	-	(39,632)
Other liabilities	-	-	(1,282,256)
Total	(46,552,606)	89,102,056	1,425,232

The maturity profile of the Core at 31 March 2012 was as follows:

	Net Assets GBP	Within one year GBP	One to five years GBP	Over five years GBP
Investments at fair value through profit or loss	86,254,269	4,695,521	25,796,397	55,762,351
Derivative financial assets				
- Options	2,453,717	577,792	-	1,875,925
- Credit default swaps	485,444	-	-	485,444
- Interest rate swaps	37,872	37,872	-	-
- Forward foreign exchange contracts	31,427	31,427	-	-
Cash and cash equivalents	2,847,787	2,847,787	-	-
Other assets	559,224	559,224	-	-
Preference shares	(46,552,606)	-	-	(46,552,606)
Derivative financial liabilities				
- Options	(820,269)	(107,332)	-	(712,937)
- Forward foreign exchange contracts	(295)	(295)	-	-
- Total equity swaps	(39,632)	(39,632)	-	-
Other liabilities	(1,282,256)	(1,282,256)	-	-
Net Assets	43,974,682	7,320,108	25,796,397	10,858,177

The Cell 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).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

15. Financial instruments (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The direct interest rate risk of the investment portfolio is minimal as the Cell'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 interest rate profile of the Cell at 31 March 2012 was as follows:

	Fixed EUR	Floating EUR	Non-interest bearing EUR
Investments at fair value through profit or loss	-	17,841,069	-
Cash and cash equivalents	-	3,671,833	-
Other assets	-	-	1,283,650
Other liabilities	-	-	(558,400)
Total	-	21,512,902	725,250

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.

The maturity profile of the Cell at 31 March 2012 was as follows:

	Net Assets EUR	Within one year EUR	One to five years EUR	Over five years EUR
Investments at fair value through profit or loss	17,841,069	-	669,051	17,172,018
Cash and cash equivalents	3,671,833	3,671,833	-	-
Other assets	1,283,650	1,283,650	-	-
Other liabilities	(558,400)	(558,400)	-	-
Net Assets	22,238,152	4,397,083	669,051	17,172,018

In addition, the Group is subject to interest rate risk on cash of GBP 5,908,201 (31 March 2011: GBP 5,915,587). 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

15. Financial instruments (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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

	Fixed GBP Represented	Floating GBP Represented	Non-interest bearing GBP Represented
Investments at fair value through profit or loss	-	109,914,383	-
Derivative financial assets			
- Options	-	-	1,157,721
- Interest rate swaps	-	-	163,753
Cash and cash equivalents	-	5,915,587	-
Other assets	-	-	2,280,842
Preference shares	(48,837,567)	-	-
Derivative financial liabilities - forward foreign exchange contracts	-	-	(82,054)
Derivative financial liabilities - options	-	-	(210,038)
Other liabilities	-	-	(2,493,798)
Total	(48,837,567)	115,829,970	816,426

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 maturity profile of the Group at 31 March 2011 was as follows:

	Net Assets GBP Represented	Within one year GBP Represented	One to five years GBP Represented	Over five years GBP Represented
Investments at fair value through profit or loss	109,914,383	79,074,226	6,264,597	24,575,560
Derivative financial assets				
- Options	1,157,721	214,946	-	942,775
- Interest rate swaps	163,753	109,938	53,815	-
Cash and cash equivalents	5,915,587	5,915,587	-	-
Other assets	2,280,842	2,280,842	-	-
Preference shares	(48,837,567)	-	-	(48,837,567)
Derivative financial liabilities				
- Forward foreign exchange contracts	(82,054)	(82,054)	-	-
- Options	(210,038)	(210,038)	-	-
Other liabilities	(2,493,798)	(2,493,798)	-	-
Net Assets	67,808,829	84,809,649	6,318,412	(23,319,232)

The maturity dates for Residual Income Positions have been determined on the basis of the calculated expected cashflows of the relevant transactions.

15. Financial instruments (continued)

(a) Market risk (continued)

(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 Core'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 Core is not exposed to discount rate risk.

The Residual Income Positions held in the Cell are model valued. The fair value of these Residual Income Positions will fluctuate as a result of a change in the discount rate applied when calculating the net present value of the investments.

The Cell 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 Cell's investment portfolio is approximately 16.91%. A 10% increase in the discount rate would have decreased the equity of the Cell and net profit per the Consolidated Statement of Comprehensive Income by EUR 944,580 (2011: EUR 1,927,512); an equal change in the opposite direction would have increased net assets.

The Cell did not exist at 31 March 2011, so a comparison of the Net Asset Value ("NAV") per share of the Cell to the prior year is not possible. The comparative figures shown are for the full Company NAV per share as at 31 March 2011. Using a discount rate of 15% for the European and UK Mortgages and 20% for the SME portfolios the NAV per share of the Cell is EUR 0.56 (31 March 2011: EUR 1.92). If different discount margin scenarios were applied to the Residual Income Positions it would have the following effect on the NAV per share of the Cell:

- All assets: 15% IRR: NAV/ share: EUR 0.61 (31 March 2011: EUR 2.00)
- All assets: 20% IRR: NAV/ share: EUR 0.53 (31 March 2011:EUR 1.84)
- European & UK Mortgages 15%, SME 25%: NAV / share: EUR 0.61 (31 March 2011: EUR 2.00)
- European & UK Mortgages 20%, SME 25%: NAV / share: EUR 0.53 (31 March 2011: EUR 1.82).

(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.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2012

15. Financial instruments (continued)

(b) Credit risk (continued)

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

	31-Mar-2012 Core GBP	31-Mar-2012 Cell EUR	31-Mar-2012 Total GBP	31-Mar-2011 Group GBP Represented
Cash and cash equivalents	2,847,787	3,671,833	5,908,201	5,915,587
Derivative financial assets				
- Options	2,453,717	-	2,453,717	1,157,721
- Credit default swaps	485,444	-	485,444	-
- Interest rate swaps	37,872	-	37,872	163,753
- Forward foreign exchange contracts	31,427	-	31,427	-
Total	5,856,247	3,671,833	8,916,661	7,237,061

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 Group also has credit exposure in relation to its derivative contracts. At 31 March, the Group was invested in derivative contracts with Deutsche Bank, Goldman Sachs and JP Morgan, counterparties with the following credit quality:

Rating	31-Mar-2012 GBP	31-Mar-2011 GBP Represented
Deutsche Bank – A+ - (Derivatives)	(39,632)	N/A
Goldman Sachs – A (Derivatives)	3,008,165	815,159
JP Morgan – A+ (Derivatives)	N/A	214,223

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.

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.

15. Financial instruments (continued)

(b) Credit risk (continued)

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 seek to 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 its 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 of the Core at 31 March 2012 analysed by contractual settlement date:

	Less than 1 month GBP	**1-3 months GBP**	**3 months to 1 year GBP**	**Greater than 1 year GBP**
Financial liabilities including derivatives settled net				
Preference Shares	-	-	-	46,552,606
Due to related parties	-	265,928	-	-
Payable for investments purchased	-	487,958	-	-
Accrued expenses	-	528,370	-	-
Derivatives settled gross				
- Options	-	-	107,332	712,937
- Forward foreign exchange contracts	-	295	-	-
- Total return equity swaps	-	-	39,632	-
	-	1,282,551	146,964	47,265,543

At 31 March 2012, the only financial liabilities in the Cell consisted of accrued expenses of EUR 35,524 which are due within 3 months and a provision for legal expenses of EUR 522,876.

15. Financial instruments (continued)

(c) Liquidity risk (continued)

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

	Less than 1 month GBP Represented	1-3 months GBP Represented	3 months to 1 year GBP Represented	Greater than 1 year GBP Represented
Financial liabilities including derivatives settled net				
Preference Shares	-	-	-	48,837,567
Distribution payable	566,128	-	-	-
Due to related parties	-	175,298	-	-
Payable for investments purchased	-	7,481	-	-
Accrued expenses	-	1,744,891	-	-
Derivatives settled gross				
- Options	-	-	210,038	-
- Forward foreign exchange contracts	-	82,054	-	-
	566,128	2,009,724	210,038	48,837,567

The market for subordinated asset-backed securities, including Residual Income Positions and real estate loans into which the Group is invested, 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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

15. Financial instruments (continued)

(d) Valuation of Financial Instruments (continued)

The following table analyses within the fair value hierarchy the Core's financial assets and liabilities measured at fair value at 31 March 2012:

31 March 2012	Level 1 GBP	Level 2 GBP	Level 3 GBP	Total GBP
Non-current assets				
Investments at fair value through profit or loss	-	82,248,003	4,006,266	86,254,269
Current assets				
Options held for trading	-	2,453,717	-	2,453,717
Interest rate swaps	-	37,872	-	37,872
Credit default swaps	-	485,444	-	485,444
Forward foreign exchange contracts	-	31,427	-	31,427
Current liabilities				
Total return equity swaps		(39,632)		(39,632)
Forward foreign exchange contracts	-	(295)	-	(295)
Options held for trading	-	(820,269)	-	(820,269)
	-	84,396,267	4,006,266	88,402,533

The following table analyses within the fair value hierarchy the Cell's financial assets and liabilities measured at fair value at 31 March 2012:

31 March 2012	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Non-current assets				
Investments at fair value through profit or loss	-	-	17,841,069	17,841,069
	-	-	17,841,069	17,841,069

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

31 March 2011 Group	Level 1 GBP Represented	Level 2 GBP Represented	Level 3 GBP Represented	Total GBP Represented
Non-current assets				
Investments at fair value through profit or loss	-	62,585,608	47,328,775	109,914,383
Current assets				
Options held for trading	-	1,157,721	-	1,157,721
Interest rate swaps	-	163,753	-	163,753
Current liabilities				
Forward foreign exchange contracts	-	(82,054)	-	(82,054)
Options held for trading	-	(210,038)	-	(210,038)
	-	63,614,990	47,328,775	110,943,765

15. Financial instruments (continued)

(d) Valuation of Financial Instruments (continued)

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 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.

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 where applicable and prices of comparable assets. Unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts.

The Core's investments in real estate loans via an interest in a jointly controlled entity are measured at fair value. The Core has exposure to these real estate loans via its ordinary and preference share holding. The fair value of the Core's ordinary and preference share holdings are linked directly to the value of the real estate loans the jointly controlled entity invests in which are measured at amortised cost less any impairment in its accounting records. These loans have less than one year maturity and are secured on residential properties with low loan to value ratios (weighted average of 61% as at 31 March 2012). The loans are not expected to be sold prior to maturity above par. The expectation is that these loans will repay in the near term at par, and therefore the amortised cost of these underlying loans at 31 March 2012 approximates their fair value.

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 2012 or during the year ended 31 March 2011.

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2012

15. Financial instruments (continued)

(d) Valuation of Financial Instruments (continued)

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:

	31 March 2012 Level 3 Core	31 March 2012 Level 3 Cell	31 March 2011 Level 3 Total Represented
Financial assets designated at fair value through profit or loss	**GBP**	**EUR**	**GBP**
Opening Balance	47,328,775	-	69,145,270
Total gains and losses recognised in the consolidated statement of comprehensive income for the year/period	3,125,073	(542,641)	1,130,479
Purchases	4,006,266	-	11,262,010
Sales	(34,214,179)	-	(30,682,814)
Paydowns	1,270,472	(1,188,300)	(7,666,317)
Assets transferred at fair value to the Cell	(17,221,557)	19,572,010	-
Payups	-	-	5,519,554
Foreign currency translation adjustment	(288,584)	-	(1,379,407)
Closing balance	4,006,266	17,841,069	47,328,775
Unrealised gain/(loss) on investments classified as Level 3 at year/period end	**-**	**4,383,486**	**(12,529,630)**

(e) Prepayment and re-investment risk

The Core's exposure to real estate loans is to short maturity secured bridge loan mortgages that have the facility for prepayment. The Core's exposure to real estate debt securities also has exposure to potential prepayment risk which may have an impact on the value of the Core's portfolio. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond the Core'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 Core's investments may have an adverse impact on the income earned by the Core from those investments. Early prepayments also give rise to increased re-investment risk. If the Core 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, the Group's net income will be lower and, consequently, could have an adverse impact on the Group's ability to pay dividends.

The Cell's valuations of its Residual Income Positions take into account expected levels of prepayment of the loans that collateralise the securitisation transactions in which the Cell 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.

15. Financial instruments (continued)

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

The Cell's investments and the assets that collateralise them may prepay quicker than expected and have an impact on the value of the Cell's portfolio. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond the Cell'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 Cell's investments may have an adverse impact on the income earned by the Cell from those investments.

Early prepayments also give rise to increased re-investment risk. If the Core 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, the Group's net income will be lower and, consequently, could have an adverse impact on the Group's ability to pay dividends.

The Investment Manager applies a prepayment rate in the range of 6%-10% (2011: 4%-25%). 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 Cell and increased net profit of the Cell by EUR 207,368 (2011: EUR 183,525); an equal change in the opposite direction would have decreased the equity of the Cell and decreased the net profit for the year by an equal but opposite amount.

(f) Default and severity rates

While the Cell's valuations of its Residual Income Positions take into account expected levels of default rates and the expected loss given a default ("severity loss rate"), the Cell's Residual Income Positions 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 Cell'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 Cell's Residual Income Positions may have an adverse impact on the income earned by the Cell from those Residual Income Positions. Severity rates are the amounts of expected loss should a borrower default.

The Investment Manager applies a default rate in the range of 1.0%-6.0% (2011: 0.6%-3.5%). 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 Positions held would have decreased the equity of the Cell and decreased net profit of the Cell by EUR 191,090 (2011: EUR 2,620,084); an equal change in the opposite direction would have increased the equity of the Cell and increased net profit of the Cell by an equal but opposite amount.

(g) Residual interest risk

The Cell'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 Cell. Some of the Cell'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.

15. Financial instruments (continued)

(g) Residual interest risk (continued)

This may lead to interruptions in the income stream that the Group anticipates receiving from its investment portfolio, which may lead to the Cell having less income to distribute to Shareholders.

The Cell 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 Cell's return on its investments, in some cases significantly.

In addition, concentration of a significant number of the Cell's investments with one servicer could affect the Cell 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 Cell invests or by other parties involved with the entity, such as servicers or cash managers, the Cell 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.

(h) Country risk

In 2011, the economic crisis entered a new phase within increasing uncertainty surrounding the creditworthiness of some sovereign states and those financial institutions/entities with exposure to sovereign debt of those states. Most notably, in the Eurozone,

- Greek government debt is in the process of being restructured with the private sector expected to accept a significant write down on the face value of its investments;
- Portugal and Ireland continue to be subject to a bail out programme;
- Concern continues to grow over the financial strength of European banks due in part to their exposure to Eurozone sovereign debt; and
- France and the ECB Bail Out Fund lost their AAA credit rating.

Outside the Eurozone, concerns have been raised over a “double dip” recession in the US and United Kingdom resulting from a number of factors including reduction in demand from the Eurozone and a lack of liquidity in the banking system, the growth of the Chinese economy is expected to decelerate (again due in part of a falling demand in Europe as well as rising inflation) and any resulting recession in the US or UK would impact other major trading partners including Japan, Canada and India.

The Directors and the Investment Manager actively manage the Company’s portfolio of investments and exposures, monitoring performance and market data and reposition investments to remain in line with the investment policy and risk appetite of the Company.

In order to provide stakeholders with a better overall understanding of the Company’s position and prospects in the context of increased country risk, the Directors have included below a summary of the Company’s exposures country.

The Directors have not factored in any potential impact of the possible consequences of the demise of the Euro or restructuring of sovereign or other debts (other than Greece) in their valuations over and above market sentiment (or as disclosed below) but the Directors believe that the provision of the above data will assist Shareholders in considering their own exposure to the Euro and also to other assets within the Eurozone.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

15. Financial instruments (continued)

(h) Country risk (continued)

Core Country exposure as at 31 March 2012

Type of asset	Country					Total
	UK (including CI and IOM)	France	Germany	Portugal, Ireland, Italy and Spain	Other Europe	
	GBP	GBP	GBP	GBP	GBP	GBP
Real Estate Debt	54,004,660	-	24,764,832	1,380,592	2,640,351	82,790,435
Residential loans	4,023,058	-	-	-	-	4,023,058
Cash	-	-	-	2,847,787	-	2,847,787
Other assets	3,008,460	-	-	-	-	3,008,460
	61,036,178	-	24,764,832	4,228,379	2,640,351	92,669,740
Preference Shares	(46,552,606)	-	-	-	-	(46,552,606)
	14,483,572	-	24,764,832	4,228,379	2,640,351	46,117,134

Cell Country exposure as at 31 March 2012

Type of asset	Country					Total
	UK (including CI and IOM)	France	Germany	Portugal, Ireland, Italy and Spain	Other Europe	
	EUR	EUR	EUR	EUR	EUR	EUR
Residential Income Positions	1,908,863	-	669,919	16,213,551	-	18,792,333
Cash	-	-	-	3,671,833	-	3,671,833
Other assets	332,386	-	-	-	-	332,386
	2,241,249	-	669,919	19,885,384	-	22,796,552

The Directors have considered whether the above assets have suffered impairment in value in the current economic climate and these impairments are reflected in the above valuations (where applicable).

The Directors do not currently believe that Eurozone assets outside of Greece are currently impaired as The Republic of Ireland and Portugal, and the two other Eurozone countries subject to EU support, continue to meet their fiscal targets and continue to draw down under these facilities to meet their debt obligations; Italy and Spain continue to issue debt in the capital markets, although at Eurozone historic-high coupons relative to previous debt issues, and make good on their debt obligations without financial support. The Directors believe that, overall, the probability of default implied by current market prices for non-Greek Eurozone sovereign debt is considerably lower compared with Greece.

15. Financial instruments (continued)

(h) Country risk (continued)

Given the significant events in the Eurozone at the present time, there is a possibility of significant bad debts in respect of Eurozone sovereign debt investments, and potentially to the collapse of the Euro itself. The Company hedges its non GBP currency exposures.

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 in line with the investment strategy 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 and are therefore considered the "Chief Operating Decision Maker" under the standard.

The Group has two reportable segments, being the Core and the Cell. This is a change in the reportable segments since the previous financial year where the reportable segments were the Real Estate Debt Investment Portfolio and the Residuals Income Positions Portfolio. As disclosed in Note 1 and Note 24, the Company converted to a Protected Cell Company with the creation of one cell, the ERII Cell. The Company's Real Estate Debt Investments remained in the non-cellular remainder of the Company being the Core. Each of the Residual Income Positions with the exception of Amstel, was transferred into the Cell with the objective of holding these investments until the earlier of maturity of the coupons or sale. Amstel remained in the Core as the redemption of this investment was imminent. Following the redemption of Amstel and as at 31 March 2012, the Core only holds Real Estate Debt Investments.

For each of the segments, the Board of Directors reviews internal management reports prepared by the Investment Manager on a quarterly basis. Up to the date of conversion, these internal management reports split the Company's portfolio into the Real Estate Debt Investments Portfolio and the Residual Income Positions Portfolio. However, following the conversion of the Company, the Investment Manager has managed each of the Real Estate Debt Investments and Residual Income Positions as part of either the Core or Cell to which these investments were transferred, with the view of monitoring performance of the Core and Cell separately.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

16. Segmental Reporting (continued)

Accordingly, as at the date of these consolidated financial statements, the segments managed by the Investment Manager changed to the Core and Cell. Each Residual Income Position held within the Cell is also individually monitored by the Investment Manager and performance analysed separately.

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.

Year Ended 31 March 2012	**Core GBP**	**Cell EUR**	**Total GBP**
Reportable segment (loss)/profit	(731,849)	2,030,862	998,692

Year Ended 31 March 2012	**Real Estate Debt Investment Portfolio GBP**	**Residual Income Positions Portfolio GBP**	**Total GBP**
Reportable segment profit (old segment definition*)	(584,698)	7,962,162	7,377,464

Year Ended 31 March 2011*	**Real Estate Debt Investment Portfolio GBP Represented**	**Residual Income Positions Portfolio GBP Represented**	**Total GBP Represented**
Reportable segment profit	10,680,003	9,328,627	20,008,630

As at 31 March 2012	**Core GBP**	**Cell EUR**	**Total GBP**
Reportable segment assets	92,669,740	22,796,552	111,670,303

As at 31 March 2011*	**Real Estate Debt Investment Portfolio GBP Represented**	**Residual Income Positions Portfolio GBP Represented**	**Total GBP Represented**
Reportable segment assets	63,874,568	47,766,870	111,641,438

* As noted above, the Company changed its reportable segments from Real Estate Debt Investments Portfolio and Residual Income Positions Portfolio to Core and Cell during the year. This was to reflect the change in the structure of the Company during the year and the way in which the portfolio is now managed. Comparatives have not been restated as this would not enable a proper commercial understanding of the management of the portfolio as at each reporting date.

The reportable segment loss of the Core as reported above includes all of the Real Estate Debt Investments and Residual Income Positions up to the date of conversion and also includes the Amstel Residual Income Position subsequent to the conversion since this investment was retained in the Core. The reportable segment profit of the Cell only includes the Residual Income Positions transferred to the Cell from the date of conversion.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

16. Segmental Reporting (continued)

All segment revenues are from external sources. There are no inter-segment transactions between the reportable segments during the year. For the year ending 31 March 2012, the reportable segment loss is equal to the loss of the Company since all income and expenditure can now be attributed to each segment i.e. Core and Cell, which was not the case previously.

For the year ending 31 March 2011, certain income and expenditure was not considered part of the performance of an individual segment i.e. Real Estate Debt Investment Portfolio and Residual Income Positions Portfolio. 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:

	Year Ended 31 March 2011 GBP Represented
Reportable Segment profit/(loss)	20,008,630
Net foreign exchange (losses)/gains	(1,178,419)
Net losses on options	(947,398)
	17,882,813
Expenses	(3,458,304)
Finance costs	(2,177,931)
Net profit	**12,246,578**

As at 31 March 2012, the reportable segment assets are equal to the total assets of the Company since all other assets can now be attributed to each segment i.e. Core and Cell, which was not the case previously. As at 31 March 2011, certain assets and liabilities are not considered to be attributable to a particular segment i.e. Real Estate Debt Investment Portfolio and Residual Income Positions Portfolio, 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-Mar-2011 GBP Represented
Total segment assets	111,641,438
Other receivables and prepayments	717,540
Cash and cash equivalents	5,915,587
Derivative financial assets – options held for trading	1,157,721
	119,432,286

Notes to the Consolidated Financial Statements (continued)
For the year ended 31 March 2012

16. Segmental Reporting (continued)

The following is a summary of the movements in the Group's investments analysed by the Core and Cell as at 31 March 2012:

Year Ended 31 March 2012	**Core GBP**	**Cell EUR**	**Total GBP**
Investments at fair value through profit or loss			
Opening fair value*	109,914,383	-	109,914,383
Purchases	73,104,585	-	73,104,585
Sales proceeds	(69,733,822)	-	(69,733,822)
Transfer of assets at fair value on conversion	(17,221,557)	19,572,010	-
Realised loss on sales	(6,378,673)	(193,009)	(6,543,140)
Net movement in unrealised gains/(losses) on investments at fair value through the profit or loss	192,637	(349,632)	(105,292)
Principal paydowns	(1,275,929)	(1,188,300)	(2,288,505)
Foreign currency translation adjustment	(2,347,355)	-	(3,223,693)
Closing fair value	86,254,269	17,841,069	101,124,516

* The opening fair value per segment will not equate to the closing fair value per segment as at 31 March 2011, due to the change in reportable segments.

The following is a summary of the movements in the Group's investments analysed by the Residual Income Portfolio and Real Estate Debt Bond Portfolio as at 31 March 2011:

Year Ended 31 March 2011	**Real Estate Debt Bond Portfolio Represented GBP**	**Residual Income Positions Portfolio Represented GBP**	**Total Represented GBP**
Investments at fair value through profit or loss			
Opening fair value	51,858,919	54,818,852	106,677,771
Purchases	16,162,376	-	16,162,376
Sales proceeds	(10,324,696)	(2,691,054)	(13,015,750)
Realised gain on sales	1,544,444	2,049,963	3,594,407
Net movement in unrealised losses on investments at fair value through the profit or loss	4,289,537	(5,788,684)	(1,499,147)
Principal paydowns	(1,003,381)	(362,349)	(1,365,730)
FX adjustment on tranlation	58,409	(697,953)	(639,544)
Closing fair value	62,585,608	47,328,775	109,914,383

In presenting information on the basis of geographical segments, segment revenue and segment assets are based on the countries of the underlying collateral. The Real Estate Debt Investments and Amstel Residual Income Position prior to redemption included in the Core and the remaining Residual Income Positions included in the Cell 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 financial statements. As a result of the change in investment policy during the year, the significant segments for the year ended 31 March 2012 differ from the segments reported in the previous year.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

16. Segmental Reporting (continued)

	Segmental Profit/(Loss)		Segmental Assets	
	Year Ended 31-Mar-2012	Year Ended 31-Mar-2011 Represented	As at 31-Mar-2012	As at 31-Mar-2011 Represented
	GBP	GBP	GBP	GBP
Ireland	2,517,249	7,034,219	46,459,547	52,657,265
Italy	47,297	646,820	3,227,053	2,541,885
Netherlands	(236,996)	1,761,073	4,960,427	15,261,296
United Kingdom	1,856,040	2,637,891	55,096,827	38,097,272
Europe	(3,184,898)	7,928,627	1,926,449	3,083,720
	998,692	**20,008,630**	**111,670,303**	**111,641,438**

17. Other liabilities

	RECI Core 31-Mar-12 GBP	ERII Cell 31-Mar-12 EUR	Total 31-Mar-12 GBP	Total 31-Mar-11 Represented GBP	Total 1-Apr-10 Represented GBP
Due to related parties – Investment Manager (Note 23)	130,748	-	130,748	175,298	131,888
Payable for investments purchased	487,958	-	487,958	7,481	-
Accrued expenses	663,550	35,524	1,128,967	1,744,891	928,729
Provision for legal expenses	-	522,876	-	-	-
Interest payable	-	-	-	-	38,159
	1,282,256	558,400	1,747,673	1,927,670	1,098,776

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 Preference Shares and equity attributable to equity holders of Core and Cell Ordinary Shares, comprising issued share capital and reserves, as disclosed on the Consolidated Statement of Financial Position. Following conversion to a protected cell company, the issued share capital of the Company consists of existing Ordinary Shares, Preference Shares and Cell Shares. The Company's capital managed as at the year end is represented by the value of the shares issued to date. The Company does not have any externally imposed capital requirements. At 30 September 2012 the Company had capital of GBP 62,509,828 (31 March 2011: GBP 67,808,829).

Authorised Share Capital

	31 March 2012 Number of Shares	31 March 2011 Number of Shares
Ordinary Shares of no par value each	Unlimited	Unlimited
Preference Share at par	49,958,731	49,958,731
Cell Shares of no par value each	Unlimited	Unlimited

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

18. Share capital (continued)

Core Ordinary Shares Issued and fully paid

	31 March 2012	31 March 2011
Balance at start of year	39,966,985	26,644,657
Ordinary Shares issued during the year	-	13,322,328
Balance at end of year	39,966,985	39,966,985

No Ordinary Shares were bought back or cancelled during the year.

Cell Shares Issued and fully paid

	31 March 2012	31 March 2011
Balance at start of year	-	-
Ordinary Shares issued during the year	39,966,985	-
Balance at end of year	39,966,985	-

As disclosed in Note 1, following the conversion of the Company to a PCC and the transfer of assets from Core to Cell, the existing Ordinary Shareholders of the Company at the date of conversion were given shares in the Cell on a pro-rata one for one basis.

Core Preference Shares Issued and fully paid

	31-Mar- 2012 Number of Preference Shares	31-Mar-2012 GBP	31-Mar-2011 Number of Preference Shares	31-Mar-2011 GBP
Preference Shares at start of year	49,958,704	48,837,567	-	-
Preference Shares repurchased during the year at par net of issue costs	(2,820,900)	(2,820,900)	-	-
Preference Shares issued during the year at par net of issue costs	-	-	49,958,704	49,958,704
Amortised issue costs allocated to Preference Shares	-	130,035	-	(1,121,137)
Write down of unamortised issue costs*	-	405,904	-	-
Balance at end of period	47,137,804	46,552,606	49,958,704	48,837,567

* The actual issuance costs with respect to the Preference Shares were lower than originally anticipated and this gave rise to the reversal of GBP 405,904 of the original accrual.

The value of the Preference Shares represent an obligation on the Company to pay the Preference Shares par value on winding up of the Company or on redemption of the Preference Shares in accordance with their terms. Following the conversion of the Company to a PCC, the liability with respect to the Preference Shares remains in the Core subject to meeting the requirements of the Preference Share Cover Test as disclosed in Note 1.

During the year ended 31 March 2011, 49,958,704 Preference Shares were issued with a par value of GBP 1 per share. All issued shares are fully paid. During the year ended 31 March 2012 the Core repurchased an amount of the Preference Shares and holds them in Treasury. The number of Preference Shares held in Treasury amounts to 2,820,900 leaving 47,137,804 Preference Shares in issue at 31 March 2012, with a par value of GBP 47,137,804. 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 are being amortised over the seven year life of the Preference Shares. At 31 March 2012, expenses in the amount of GBP 585,198 remained unamortised. These unamortised expenses were netted against the par value of the Preference Shares liability in the Consolidated Statement of Financial Position (Par value of GBP 47,137,804 less unamortised costs of GBP 585,198 to give GBP 46,552,606).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

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

	Core 31 March 2012	**ERII Cell 31 March 2012**	**Group 31 March 2012**
	GBP	**EUR**	**GBP**
Balance at start of year	**67,808,829**	**-**	**67,808,829**
Transfer of assets	(18,690,263)	21,246,432	-
Net (loss)/profit for the year	(731,849)	2,030,862	998,692
Distribution to the Ordinary Shareholders of the Company	(1,666,567)	(1,039,142)	(2,536,258)
Foreign currency translation adjustment	(2,745,468)	-	(3,761,435)
Balance at end of year	**43,974,682**	**22,238,152**	**62,509,828**

	Group 31 March 2012
	GBP Represented
Balance at start of year - represented	**88,603,798**
Issue of Ordinary Shares of the Company	22,203,735
Issue of Preference Shares of the Company	(49,958,704)
Ordinary Shares issuance expenses	(608,329)
Net profit for the year	12,246,578
Distribution to the Ordinary Shareholders of the Company	(5,685,474)
Foreign currency translation adjustment	1,007,225
Balance at end of year	**67,808,829**

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. The proceeds of the Initial Public Offering represent the premium on the issue of the Ordinary Shares.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 March 2012

20. Notes to Statement of Cash Flows

	Year ended 31 March 2012 Core GBP	Year ended 31 March 2012 Cell EUR	Year ended 31 March 2012 Total GBP	Year ended 31 March 2011 Represented GBP
Net (loss)/profit	(731,849)	2,030,862	998,692	12,246,578
Adjustments for:				
Amortised share issue expenses	130,035	-	130,035	76,136
Net realised gains on sale of investments	6,378,673	193,009	6,543,140	(5,406,438)
Realised losses on options	835,259	-	835,259	647,385
Unrealised gains/(losses) on investments at fair value through profit or loss	(192,637)	349,632	105,294	(3,178,353)
Unrealised (gains)/losses on options	(1,179,419)	-	(1,179,419)	300,013
Unrealised losses on credit default swaps	3,113	-	3,113	-
Unrealised losses on interest rate swap agreements	84,286	-	84,286	1,900,452
Unrealised gains on foreign exchange bank balances	(105,402)	(9,633)	(113,610)	(11,197)
Unrealised (gains)/losses on foreign exchange instruments	(70,912)	-	(70,912)	78,743
	5,151,147	2,563,870	7,335,878	6,653,319
Purchases of investments	(73,104,585)	-	(73,104,585)	(52,105,793)
Sales proceeds from investments	69,733,822	-	69,733,822	23,362,043
Purchases of options	(2,177,379)	-	(2,177,379)	(2,403,680)
Options written	2,063,586	-	2,063,586	749,421
Purchases of credit default swaps	(488,588)	-	(488,588)	-
Cash receipts on investments	-	-	-	9,651,413
Principal paydowns	1,275,929	1,188,300	2,288,504	-
	(2,697,215)	1,188,300	(1,684,640)	(20,746,596)
Decrease/(increase) in receivables	(1,568,181)	(1,109,227)	(2,511,024)	(1,052,668)
Increase in payables	(645,414)	558,399	(170,775)	828,895
	(2,213,595)	(550,828)	(2,681,799)	(223,773)
Net cash inflow/(outflow) from operating activities	240,337	3,201,342	2,969,439	(14,317,050)

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. Collateral

The Core held GBP 286,335 as cash collateral for financial derivative instruments transactions undertaken with Goldman Sachs. This collateral also represents an obligation on the Core to repay Goldman Sachs on settlement of the financial derivative instrument and is not included in the Consolidated Statement of Financial Position of the Core. As this amount is the minimum deemed by the brokers for collateral requirements the cash is restricted and is reported separately by means of this note only.

22. Contingent liability

The Cell's income and assets may be called upon under the Inter-Cellular Agreement to satisfy the liabilities relating to the distribution of Preference Dividends and/or the Final Capital Entitlement where the Core Assets are insufficient to meet these liabilities. Further details in relation to this are disclosed in Note 1. As at 31 March 2012, the Directors consider that the Core's income and assets are sufficient to satisfy the Preference Dividends and/or Final Capital Entitlement and it is not probable that the Cell's income and assets will be called upon and accordingly no provision has been made in the Cell's financial statements.

23. Material agreements and related party transactions

Joint venture with Omni:
On 18 October 2011 the Company invested into Omni Capital Loans (Guernsey) Limited, a Guernsey domiciled joint venture with Cheyne Real Estate Credit Holdings LP and CPC Omni Holdings (Guernsey) Limited. The Company made this investment as part of its investment strategy in order to help it achieve its investment objectives. The Company made an initial investment of GBP 2,106,761 followed by subsequent investments, which had a market value of GBP 4,006,266 at 31 March 2012. The Company held 21.87% of the ordinary share capital in the joint venture at 31 March 2012. There were no outstanding balances between the Company and the joint venture at the year end date. Mr Graham Harrison, a Director of the Company, is also a director of Omni Capital Loans (Guernsey) Limited.

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.

The Group pays Cheyne Capital Management (UK) LLP (the "Investment Manager") a Management Fee and Incentive Fee. During the year ended 31 March 2012, the Management Fee totalled GBP 1,993,185 (2011: GBP 1,742,562), of which GBP 130,748 (2011: GBP 175,298) was outstanding at the year end. There was no incentive fee charged during the year ended 31 March 2012 or 31 March 2011.

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.

23. Material agreements and related party transactions (continued)

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. 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 is reset on 1 April each year equal to 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.

The Company and the Investment Manager agreed that, following conversion, an Incentive Fee will no longer be charged on the Cell Assets.

There was no incentive fee charged to the Company during the year ended 31 March 2012 or 31 March 2011.

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 EUR 80,000,000 and 0.0325 per cent of the gross asset value of the Group greater than EUR 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 EUR 80,000,000 and 0.02 per cent of the gross asset value of the Group greater than EUR 80,000,000, plus additional fees in relation to transaction fees, statutory reporting, corporate secretarial fees and other out of pocket expenses.

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 (EUR 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.

23. Material agreements and related party transactions (continued)

Investment Manager Options (continued)

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 EUR 7,672,500 (reflecting a valuation of EUR 3.41 per option). This amount has been treated as a cost of the Initial Public Offering. As at 31 March 2012, these options were out of the money as the share price was below the Offer Price of EUR 10.23.

Significant Shareholder
Cheyne ABS Opportunities Fund L.P., a Partnership that is also managed by Cheyne Asset Management (UK) LLP, held 15,773,804 Core Ordinary Shares, 15,773,804 Cell Shares and 10,672,555 Core Preference Shares in the Company amounting to 39.47% of the issued share capital of the Core and Cell and 21.36% of Core Preference Shares at 31 March 2012.

24. Significant Events during the year

In May 2011 the Company reduced its exposure to Portuguese mortgage Residual Income Positions by selling the Lusitano Mortgages No. 1 plc, Lusitano Mortgages No. 2 plc and Lusitano Mortgages No. 3 plc Portuguese mortgage Residual Income Positions, and in June 2011, the Company further reduced its exposure to UK mortgage Residual Income Positions by selling the RMAC 2004 NSP4 plc, RMAC 2005 NS3 plc and RMAC 2005 NS4 plc UK mortgage Residual Income Positions. The sale of these Residual Income Positions raised EUR 26,429,836.

On 10 August 2011, following an extraordinary meeting of the Company, the Board of Directors announced the conversion of the Company to a protected cell company under Guernsey Law and the creation of one cell known as European Residual Income Investments Cell (the “Cell” or “ERII Cell”).

The majority of the Residual Income Positions with a fair value based on the pricing models at the transfer date of EUR 19,572,010, together with other net assets amounting to EUR 1,674,422, were transferred to the Cell whose Shares have a separate listing on the Specialist Funds Market of the London Stock Exchange.

The existing Ordinary Shareholders of the Company at the date of conversion were given shares in the Cell on a pro-rata one for one basis. The Company’s Real Estate Debt Investments continue to be held by the noncellular remainder of the Company (the “Core”) and the Core’s Ordinary Shares continue to have a premium listing on the London Stock Exchange. Following from this conversion, the name of the Company was changed to Real Estate Credit Investments PCC Limited on 15 August 2011. Note 1 provides further details of the major changes that occurred as a result of this conversion.

On 25 August 2011 the Amstel Residual Income Position which was retained within the Core, was redeemed for a principal amount of EUR 12,453,998 and interest of EUR 2,036,090.

Effective 1 October 2011 the trading denomination of the Company’s Core Ordinary Shares of no par value was changed to British Pounds (“GBP). The Company reviewed its functional and presentation currencies and the Company and Core also changed its functional and presentation currency to GBP prospectively from that date. The Cell’s functional and presentation currency remained the Euro.

25. Subsequent Events

A final dividend for the year ended 31 March 2012 of GBP 0.017 per share was approved by the Directors on 6 June 2012. There have been no other significant events affecting the Group since the year end date that require amendment to or disclosure in the financial statements.

26. Foreign Exchange Rates

The following foreign exchange rates relative to the GBP were used as at 31 March 2012:

EUR	1.19978
US Dollar	1.59775

The Cell financial statements are translated from Euro to GBP using the closing rate at 31 March 2012 in respect of the Company's Statement of Financial Position. The Core was denominated in Euro until 30 September 2011. The Cell is denominated in Euro at 31 March 2012. The average rates used to prepare the combined Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows were:

Average EUR / GBP Rate	
1 April 2011 to 31 March 2012 (Cell)	0.85212
1 April 2011 to 30 September 2011 (Core)	1.17354

The following foreign exchange rates relative to the Euro were used as at 31 March 2012:

GBP	0.83348
US Dollar	1.33169

In accordance with IAS 21, the financial statements for the year ended 31 March 2011 were represented in GBP. As disclosed in Note 2, the Consolidated Statement of Comprehensive Income was translated using the average exchange rate during the year. The Consolidated Statement of Financial Position was translated using the exchange rate at the reporting date while Shareholder's Equity transactions were translated using the rates of exchange in effect as of the dates of the various capital transactions. The Consolidated Statement of Cash Flows were converted using a combination of the rate of exchange in effect as of the dates of the various cash transactions and the average exchange rate. The table below details the EUR/GBP exchange rates used in presenting the comparative information in GBP.

Opening Statement of Financial Position	1 Apr 2010	0.89202
Closing Statement of Financial Position	31 Mar 2011	0.88531
Statement of Comprehensive Income	Average Rate	0.84959
Statement of Changes in Equity		
Issue of Ordinary Shares of the Company	15 Sept 10	0.83333
Share issuance expenses allocated to the Ordinary Shareholders	15 Sept 10	0.83333
Issue of Preference Shares of the Company	15 Sept 10	0.83333
Distributions to the Ordinary Shareholders of the Company		
Declaration Date	15 Mar 10	0.90899
Declaration Date	9 Jun 10	0.82616
Declaration Date	15 Mar 11	0.86952

27. Approval of the Consolidated Financial Statements

The financial statements were approved by the Directors on 6 June 2012.

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Christopher Spencer

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