

QUEEN'S WALK INVESTMENT LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2009

QUEEN'S WALK INVESTMENT LIMITED

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QUEEN'S WALK INVESTMENT LIMITED

Chairman's Statement

The past year has been as challenging for the financial markets and global economy as any since the Great Depression. The overriding task for Queen's Walk Investment Limited (the "Company") over the past 12 months has been to increase its financial robustness amid tremendous uncertainty.

While the Company has suffered from falling valuations, it has retained strong cash flows. It has also taken proactive measures to strengthen its financial position for the longer term, most notably by reducing debt and by improving asset quality with new investments.

The Company recorded an interest income of €1.7 million or €0.81 per share for the financial year ended 31 March 2009, compared to €9.1 million or €1.27 per share in the previous year. The fall in interest income is largely attributable to a contraction in the Company's total assets ("gross asset value" or "GAV"), which declined from €43.3 million as at 31 March 2008 to €38.0 million as at 31 March 2009 as a result of amortisation of the assets and fair value write-downs.

The Company incurred a net loss of €9.9 million for the year or €1.13 per share, an increase from the net loss of €2.1 million or €0.59 per share for the financial year ended 31 March 2008. The Company's net asset value (NAV) at the end of this financial year was €3.96 per share, down from €6.42 per share as at 31 March 2008.

In the 2009 financial year, the Company reported gross cash flows of €40.5 million. In spite of losses, the Company's income from investments has been sufficiently strong for it to pay dividends. For the quarter ended 31 March 2009, the Company has declared a quarterly dividend of €0.08 per share, and has paid a total of €0.46 per share in the year ended 31 March 2009. Since its IPO in December 2005, the Company has paid or declared dividends of €2.13 per share. The Directors remain committed to seeing that the Company continues to pay, as far as possible, quarterly dividends that are in line with the Company's income generating potential.

In the year ended 31 March 2009, the Company paid or declared dividends of €12.8 million and returned approximately €8.8 million to shareholders through a combination of share buy-backs and tender offers. In total, the Company returned €31.6 million to shareholders in this period.

Strengthening financial position

Values across all asset classes have suffered materially during the past year, most severely in the wake of the failure of Lehman Brothers in September 2008. The weakness of the banking system prompted governments and central banks to take measures that have restored some confidence in the financial system.

In spite of these stimulus packages, the Company has operated on the basis that economic conditions will worsen. That is why increasing financial stability, especially the certainty of cash flow, has been the Company's priority. The Company agreed a repayment schedule with its lenders in the third quarter of the financial year and, by the end of the fourth quarter, had repaid approximately 50% of its debt. The Company's strong cash flow has allowed it to make debt repayments significantly ahead of the agreed schedule.

Net leverage has increased from 6.2% as at 31 March 2008 to 12.3% as at 31 March 2009. The increase in net leverage reflects the Company's use of cash to complete a tender offer on 3 million shares and the purchase of €7.4 million of investment grade bonds in the second half of the financial year.

The Company's current portfolio is made up of three key asset classes. The largest is the European mortgage loan portfolio accounting for 46.5% of GAV. The SME loan portfolio accounts for 26.4% of GAV and the investment grade portfolio accounts for 3.8% of GAV.

The European mortgage loan portfolio, comprising loans made to borrowers in Portugal and Italy, generated €13.3 million of cash flow for financial year, compared with €14.2 million the previous year. The slight reduction stemmed from one of the investments holding back cash payments until maturity.

QUEEN'S WALK INVESTMENT LIMITED

Chairman's Statement (continued)

Strengthening financial position (continued)

The SME loan portfolio, which contains exposure to German, Spanish, Dutch and US borrowers, performed in line with or better than expectations. It generated €4.3 million of cash flow, up from €2.8 million in the previous financial year.

Since August 2008 the Company has used available cash to buy investment grade asset-backed securities (ABS). Price dislocation in the ABS market has offered attractive investment opportunities. The Company has purchased €6.4 million face value of investment grade bonds in the past financial year and has been able to secure these bonds at an average price of 45 cents. Investing in investment grade ABS bonds has allowed the Company to reduce its risk profile while acquiring assets that should ultimately be NAV accretive.

This new portfolio has a broad mix of largely residential and commercial backed mortgage bonds with an average rating of A-. In the past quarter the average cash-on-cash yield of this portfolio has been approximately 17%.

Outlook

Dislocation across asset-backed securities means the market continues to offer attractively priced assets, both at an individual asset and at a portfolio level. The high cash-on-cash yield of the Company's investment portfolio makes it well positioned to reinvest its capital in these opportunities.

While in the past year, the Company has focused on purchasing individual bonds, over the coming months the Company will look to purchase larger portfolios of assets. Numerous portfolios have become available recently as a result of the need for banks to reduce risk weighted assets in their portfolios. The Company will only seek to purchase these portfolios if it can secure terms that result in a favourable risk reward profile. Given expectations of further economic uncertainty, the Company will prioritise financial discipline in relation to any investment decision.

As the Company continues pursuing new investment opportunities, it remains committed to its dividend strategy to reward our investors with a high dividend payout ratio.

The debt repayment programme which started in the past financial year will continue next year, with the Company looking to maintain a repayment schedule ahead of the timetable originally agreed with our lenders.

The European mortgage loan portfolio has started to benefit from lower arrears levels, stemming from lower interest rates. However, as the economic slump continues, the Company expect the value of the portfolio to be negatively affected by rising unemployment. The current loss-adjusted cash flow forecast and valuations assumes default rates will increase from current levels. Continued weakness in the real economy is also likely to lead to higher default rates in the SME loan portfolio. Our cash flow forecast and valuations reflect these higher default rate forecasts.

While it is not possible to predict the full magnitude of the economic downturn, the Company has developed its loss adjusted cash flow forecasts on the premise that economic conditions will worsen. However, the Company expects the pace of economic contraction will likely moderate in the coming quarters, easing the pressure on both NAV and supporting cash flows.

We look forward to maintaining a dialogue with our investors as we take advantage of the current market opportunities, and rebuild NAV.

QUEEN'S WALK INVESTMENT LIMITED

Chairman's Statement (continued)

Annual General Meeting

The Company's Annual General Meeting will be held at the registered offices of the Company on 11 September 2009. The notice of the Annual General Meeting and a form of proxy will accompany the annual report to be distributed to shareholders in the Company.

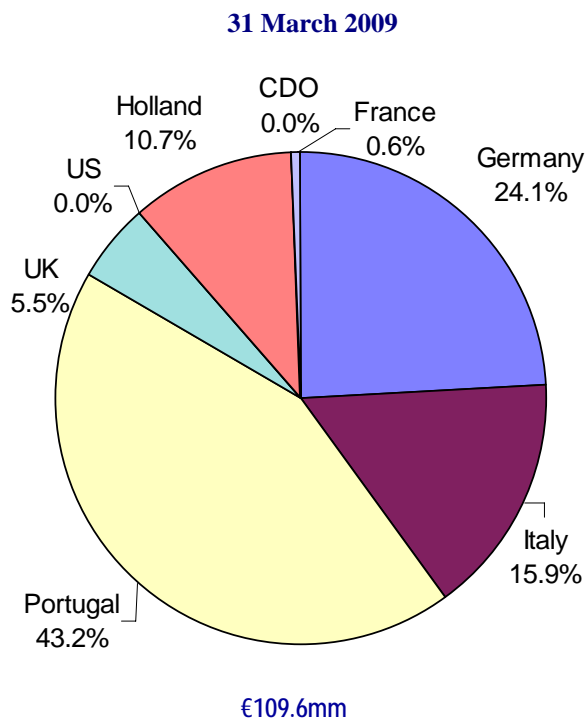
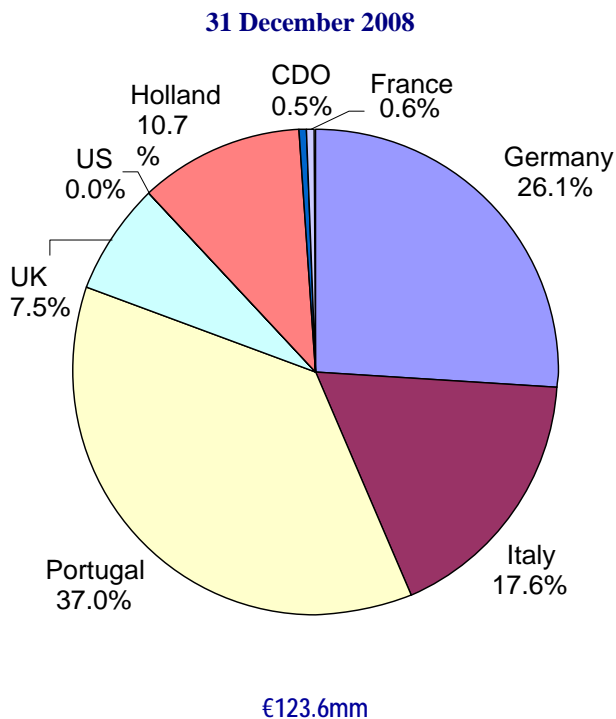
Tom Chandos, Chairman
16 June 2009

QUEEN'S WALK INVESTMENT LIMITED

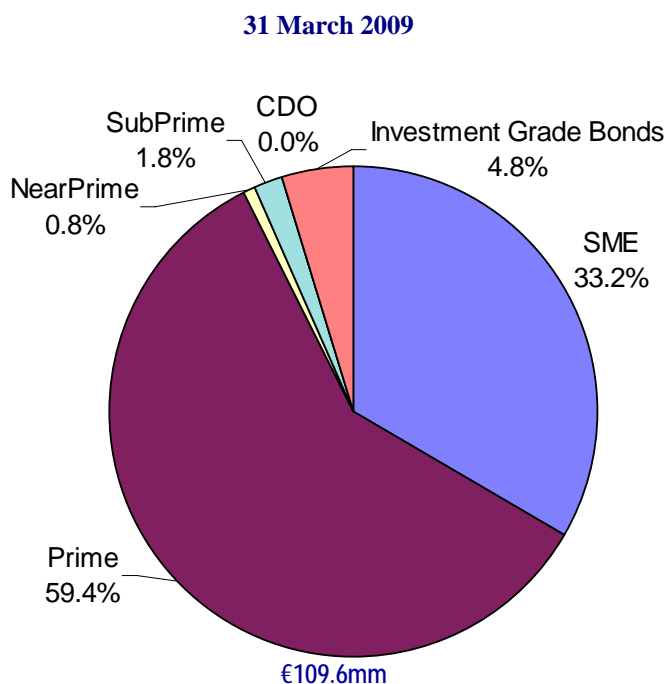
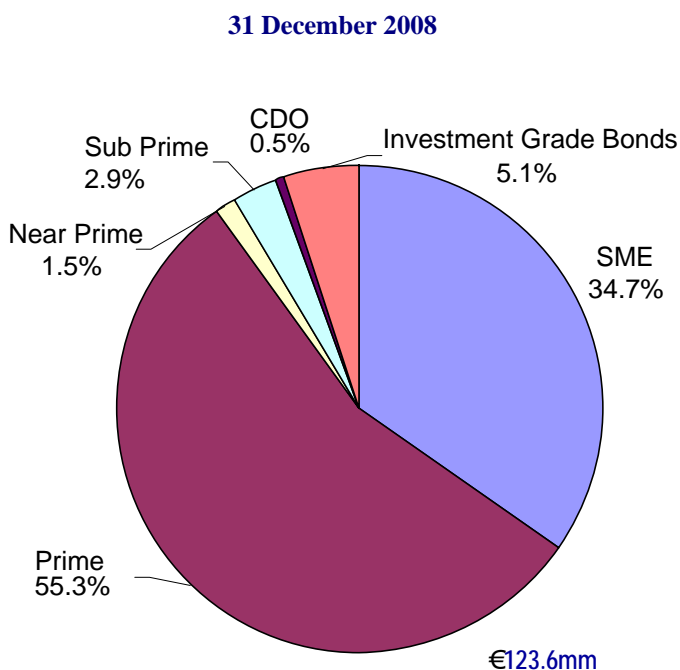
Investment Manager's Report

Investment Portfolio

A breakdown of the Company's investment portfolio by jurisdiction (by reference to underlying asset originator) is set out below. The investment grade bonds are included in the charts and are also detailed in the next section. Percentages for each asset class are in relation to the value of the Company's portfolio excluding cash and hedges.



A breakdown of the Company's investment portfolio by asset type (by reference to underlying asset collateral) is set out below. Percentages for each asset class are in relation to the value of the Company's investment portfolio, excluding cash and hedges.



QUEEN'S WALK INVESTMENT LIMITED

Investment Manager's Report (continued)

Investment Portfolio (continued)

N.B. The term 'Prime' indicates that the underlying pool of loans comprises mortgages made to borrowers with good credit records and whose incomes were verified at the time of the origination.

European Mortgage Portfolio (46.5% of GAV)

The Company's European mortgage residuals continue to perform satisfactorily. Cash flows in the quarter ended 31 March 2009 totalled €6.4 million, compared to €2.8 million in the previous quarter. Cash flows in the year ended 31 March 2009 totalled €13.3 million, compared to €4.2 million in the previous year.

Cash flows for the Lusitano 1 and Lusitano 2 Portuguese mortgage portfolios were significantly higher than expected. The securitisation vehicle had accrued unpaid government payments which were released ahead of schedule in the March quarter. These payments accounted for approximately €2.8 million of the cash flows received in the quarter. Cash flow for these two assets for the quarter stood at €3.6 million after this one-off payment.

In the quarter ended 31 March 2009, the average default rate of the underlying mortgage pools was unchanged at 1.06%. In contrast, the Company's current cash flow forecasts assume an expected default rate of 1.32%.

In some European mortgage investments, the Company has identified early signs that arrears rates are stabilising and, in some cases, falling. However, it will take time for the full impact of lower Euribor rates to emerge, as many of the mortgages are yet to reset their mortgage rates to new, lower levels. The forecasted default rates used in the Company's cash flow models will be lowered once a more definitive arrears trend emerges.

Valuations for European mortgages assume the sponsors refinance the portfolios at a future date. While it is possible for the Company to incentivise sponsors to refinance their transactions, these incentives are deeply out of the money under current market conditions. The table below shows the change in value of the European mortgage portfolios assuming different refinancing dates.

	Refinancing Date Current Assumption	Scenario 1 ¹	Scenario 2 ²
Lusitano 1	15-Dec-11	15-Sep-17	15-Jun-20
Lusitano 2	15-Nov-12	15-May-20	15-May-23
Lusitano 3	16-Oct-13	16-Jan-20	16-Jan-23
Magellan 1	15-Dec-10	16-Sep-16	16-Sep-19
Magellan 2	18-Oct-10	18-Apr-17	18-Jul-20
Sestante 1	27-Jun-14	27-Jun-14	27-Dec-15
Portfolio Value €mm	64.24	66.42	60.97

¹Scenario 1 assumes portfolio is refinanced when it is 10% of its original size.

²Scenario 2 assumes portfolio is refinanced when it is 5% of its original size.

SME Portfolio Investments (26.4% of GAV)

The Company's SME portfolio continues to perform in line with expectations. Cash flows in the quarter ended 31 March 2009 totalled €4.3 million, compared to €3.4 million in the previous quarter. Cash flows in the year ended 31 March 2009 totalled €4.3 million, compared to €2.8 million in the previous year.

To reflect continued weakness in the real economy, and the net tightening of credit standards on loans, the Company has further increased the expected default rate on its SME portfolio by 15%. The table below shows the updated annual default rate forecast relative to the December forecast.

QUEEN'S WALK INVESTMENT LIMITED

Investment Manager's Report (continued)

Investment Portfolio (continued)

The Company is also expecting the Amstel vehicle to invoke a clause to postpone cash payments for certain periods, and make those payments on maturity in 2014. If invoked this would reduce quarterly cash flow by approximately €0.9 million, but have no impact on total lifetime cash flows for the Company. No other investments in the portfolio contain a similar clause.

The table below summarises the actual default rates for the SME portfolio in the past 12 months and the default rates that the Company has used to determine the forecast cash flows in the quarters ended 31 December 2008 and 31 March 2009.

	December 2008 Default Rate (annualised)	March 2009 Default Rate (annualised)	Default Rate in Last Year	Ratings Implied Default Rate	Model or "Assumed" Default Rate
Amstel 06-1	1.20%	0.00%	0.30%	0.46%	0.60%
Smart 06-1	1.15%	1.48%	0.80%	2.11%	2.00%
Gate 06-1	1.16%	0.69%	0.49%	0.96%	1.05%
Gate 05-2	0.04%	4.30%	1.75%	3.53%	4.30%
Average	0.89%	1.62%	0.84%	1.77%	1.99%

UK Mortgage Portfolio (2.7% of GAV)

The Company's UK mortgage portfolio recorded cash flows of £1.3 million in the quarter ended 31 March 2009 compared to £1.3 million in the previous quarter. Cash flows in the year ended 31 March 2009 totalled £11.1 million, compared to £37.9 million in the previous year. Cash flows in the quarter ending 30 June 2009 are expected to be materially lower than the quarter ending 31 March 2009.

The Investment Manager has made progress in persuading mortgage originators to voluntarily repurchase loans that did not satisfy representations and warranties provided at the time of the securitisation. The Company has been able to recover or avoid losses of approximately £0.7 million from the UK mortgage portfolio. These amounts accrued to the benefit of the Company in the quarter ended 31 March 2009. The Company has been able to recover a further £300,000 from the UK mortgage portfolio which will accrue to the benefit of the Company in the quarter ending 30 June 2009.

Investment Grade Bond Portfolio (3.8% of GAV)

The investment grade portfolio recorded cash flows of €0.3 million in the quarter ended 31 March 2009, unchanged from the previous quarter. Cash flows in the year ended 31 March 2009 were €0.8 million. As at 31 March 2009, the Company had spent €7.4 million on purchasing investment grade bonds, and spent a further €1.4 million on bonds in the period to 31 May 2009. The annualised cash-on-cash yield of the bond portfolio in the quarter ended 31 March 2009 was approximately 17%¹. The tables below detail the European ABS bonds that were purchased by the Company up to 31 May 2009². The weighted average rating of the portfolio (based on the invested amount) is approximately A-.

¹ Total cash proceeds received in the quarter divided by amortised cost value of the bonds.

² The tables include the bonds purchased at their cost using FX rates at the time of purchase.

QUEEN'S WALK INVESTMENT LIMITED

Investment Manager's Report (continued)

Investment Portfolio (continued)

Percentage of Portfolio by Value

Rating by Vintage ¹	2003	2004	2005	2006	2007	Total
AAA	4.50%	12.20%	18.01%		1.12%	35.83%
AA		4.58%		23.76%		28.34%
A				14.95%		14.95%
BBB			12.90%		7.98%	20.88%
Total	4.50%	16.78%	30.91%	38.71%	9.10%	100.00%

Percentage of Portfolio by Value

Rating by Type	UK Prime RMBS ²	UK Buy To Let RMBS ²	UK Non-Conforming RMBS ²	Euro Prime RMBS ²	UK CMBS ³	Euro CMBS ³	SME	Total
AAA	3.46%	12.58%	2.47%	9.35%			7.97%	35.83%
AA		23.76%			4.58%			28.34%
A			11.57%			3.38%		14.95%
BBB	12.90%					7.98%		20.88%
Total	16.36%	36.34%	14.04%	9.35%	4.58%	11.36%	7.97%	100.00%

1. Vintage reflects the issue date of the bond
2. Residential Mortgage Backed Securities
3. Commercial Mortgage Backed Securities

Portfolio Valuation

In accordance with the Company's valuation procedures, the fair value of the Company's investments is calculated on the basis of observable market data, market discount rates and the Investment Manager's expectations regarding future trends. Given the considerable continuing re-structurings at many investment banks, the Company has received marks on only 6 out of 21 of its residual investments compared to 13 in the previous quarter. As a consequence of this, the Company has elected to use a model based approach to value its residual investments. The pricing assumptions have been reviewed by an external validation agent. The Company has used a 15% discount rate for the European and UK mortgage portfolios and 20% discount rate for the SME portfolios. These discount rates are applied to the loss adjusted cash flows. The Company received broker marks for all of the investment grade bonds.

After giving effect to fair value write-downs and principal pay-downs to the residual investment portfolio and the investment grade bond portfolio of €14.0 million in the quarter ended 31 March 2009 (€97.5 million for year ended 31 March 2009), the NAV of the Company was €3.96 per share as at 31 March 2009 (versus €4.12 per share as at 31 December 2008).

The table below summarises the changes in fair values of the Company's investment portfolio by asset class:

Asset Class	31 Dec 2008 Fair Value ^{1,2} (€mm)	31 Mar 2009 Fair Value ² (€mm)	Fair Value Change Since 31 Dec 2008 (€mm)	Cash flows Received in the Quarter Ended 31 December 2008 ³ (€mm)	Cash flows Received in the Quarter Ended 31 March 2009 (€mm)
UK Mortgages	6.3	3.7	-2.6	1.5	1.4
Euro Mortgages	67.4	64.2	-3.2	2.8	6.4
SME	42.9	36.4	-6.5	3.4	4.3
CDO	0.7	0.0	-0.7	0.2	-
US Mortgages	0.0	0.0	0.0	0.0	0.0

QUEEN'S WALK INVESTMENT LIMITED

Investment Manager's Report (continued)

Investment Grade Bonds	6.2	5.3	-1.0	0.3	0.3
TOTAL ⁴	123.6	109.6	-14.0	8.2	12.4

1. Fair values as at 31 December 2008 are expressed using 31 March 2009 FX rates.
2. The fair value figures for 31 December 2008 and 31 March 2009 include accrued interest.
3. Cash flows for 31 December 2008 are expressed using 31 March 2009 FX rates.
4. The values for each column may not sum to the total due to rounding differences.

Fair value changes since 31 December 2008 include principal amortisations as a result of cash flows received in the quarter, as well as fair value adjustments related to the investment portfolio.

Company Outlook

The Company will continue to focus on improving financial stability through debt repayment and new investments. Since 30 November 2008, the Company has repaid €17 million of debt and spent €8.8 million on purchasing investment grade bonds.

Cash balances are expected to remain above €13 million at the end of June, with the expected debt outstanding to be below €22 million by the end of July. As a result of lower than expected cash flows from the UK mortgage portfolio, cash flows in subsequent quarters will be approximately €5.5 million a quarter.

Over the coming months, the Company will continue to selectively gather mis-priced assets in the ABS markets. The Company is also investigating transactions that allow banks to deconsolidate significant amounts of their ABS balance sheet to achieve regulatory capital relief. The Company's return targets for these types of assets are in excess of 20%.

Worsening economic conditions could have an impact on the European mortgage and SME portfolios. The Company expects default levels to rise in its SME portfolio and has increased its default assumptions accordingly. The outlook for the European mortgage portfolio is broadly neutral with the expected impact of poor economic conditions likely to be offset by lower Euribor rates leading to lower levels of arrears.

Given the cash flow generation of the Company's portfolio, the Company remains well positioned to take advantage of the continued investment opportunities in the ABS markets.

Cheyne Capital Management (UK) LLP
16 June 2009

QUEEN'S WALK INVESTMENT LIMITED

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2009.

Queen's Walk Investment Limited (the "Company") was registered on 6 September 2005 with registered number 43634 and is domiciled in Guernsey, Channel Islands, and commenced its operations on 8 December 2005. The Company is a closed-ended investment company with limited liability formed under The Companies (Guernsey) Law, 2008 and its Ordinary Shares are listed on the London Stock Exchange. The registered office of the Company is Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 3BG, Channel Islands. "Group" is defined as the Company and its subsidiary, Trebuchet Finance Limited.

The new Guernsey Fund Rules relating to authorised and registered funds (the Authorised Closed-Ended Investment Schemes Rules 2008 and the Registered Collective Investment Scheme Rules 2008, (together the "new rules")) became effective from 15 December 2008. All funds in existence as at that date are automatically deemed to be authorised funds but had a transition period of up to 30 April 2009 to write to the Guernsey Financial Services Commission and convert to a registered fund. The Company's Directors have decided to keep the Company as an authorised fund.

Principal activity and business review

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

Results and dividends

The results for the year and the Group's financial position at the end of the year, are shown on pages 23 to 25. Dividends totalling Euro 12,846,078 were paid/declared during the year, included in this amount is the third interim dividend of Euro 2,131,573, which was paid on 17 April 2009. A final interim dividend for the year ended 31 March 2009 of Euro 0.08 per share was declared by the Directors on 16 June 2009 and has not been included as a liability in these financial statements.

Directors

The Directors of the Company who served during the year were:

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

The Directors' interests (number of ordinary shares) in the share capital of the Company at 31 March 2009 (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
Tom Chandos (Chairman)	19,000	0.07%
Talmay Morgan	1,000	0.00%
Christopher Spencer	1,000	0.00%
Graham Harrison	1,000	0.00%
John Hawkins	1,000	0.00%

QUEEN'S WALK INVESTMENT LIMITED

Directors' Report (continued)

Substantial interests in share capital

As of 25 May 2009, the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

Date Notified	Name of Holder	Percentage of Voting Rights	Percentage Issued Share Capital	Number of Ordinary Shares	Nature of Holding
25 May 2009	The Bank of New York (Nominees) Limited	4.13%	4.13%	1,101,121	Indirect
25 May 2009	Credit Suisse Client Nominees (UK) Limited Goldman Sachs Securities (Nominees) Limited	4.56%	4.56%	1,216,273	Indirect
25 May 2009	HSBC Global Custody Nominee (UK) Limited	4.20%	4.20%	1,120,254	Indirect
25 May 2009	Limited	4.13%	4.13%	1,101,085	Indirect
25 May 2009	Lynchwood Nominees Limited	4.16%	4.16%	1,107,640	Indirect
25 May 2009	State Street Nominees Limited	59.22%	59.22%	15,778,804	Indirect

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.

Auditors

On 1 December 2008 Deloitte & Touche LLP changed its name to Deloitte LLP. A resolution for the reappointment of Deloitte LLP will be provided at the next annual general meeting.

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

- (1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (2) the Director has taken all steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Listing Requirements

On 13 December 2005 the Company's Ordinary Shares were admitted to the Official List of The London Stock Exchange.

QUEEN'S WALK INVESTMENT LIMITED

Directors' Report (continued)

Authorised and Issued Share Capital

There has been no movement in the authorised share capital during the year. Due to the buyback program and tender offers, the issued share capital has decreased in the year from 30,706,048 to 26,644,657 Ordinary Shares of no par value.

On behalf of the Board on 16 June 2009

Christopher Spencer
Director

Talmi Morgan
Director

QUEEN'S WALK INVESTMENT LIMITED

Investment Policy

In order to achieve its investment objective, the Group invests primarily in a diversified portfolio of subordinated tranches of ABS where the Investment Manager considers that the coupon or cash flows on the subordinated tranche are attractive relative to the underlying credit. These subordinated tranches of ABS will, in most cases, be below investment grade or unrated and will, in many cases, represent the residual income typically retained by the originator of a securitisation transaction as the "equity" or "first loss" position.

The residual income position in a securitisation represents the cash flows, if any that remain at the bottom of the payment waterfall after all other debt and transaction costs in respect of a securitisation, including payments on the more senior tranches of ABS, have been met. These positions are typically retained by the originator of the assets underlying the securitisation. The value of residual income positions is significantly influenced by the particular characteristics of the residual income position. Valuation takes considerable time, expertise, and a detailed knowledge of the underlying assets. Value also depends on the view taken of the underlying collateral and on the view taken by an investor on its required return, which are both subjective judgements. Unlike a more conventional debt instrument and the more senior tranches of ABS, the pay-out profile of a residual income position will not generally include a contractually established schedule of fixed payments divided between interest and principal. Instead, the pay-outs will 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 interest payments. The Group intends to reinvest the principal repayment portion of such cash flows in new investments when it has the ability to do so. Residual income positions also expose the holder to the risk that any default or loss on the assets in the securitised portfolio may reduce the cash flows available to be paid to the holder as interest or a return of principal.

Where appropriate, the Group may utilise leverage for the purpose of financing its portfolio and enhancing returns to Shareholders. The Group intends to reduce exposure to interest rate and currency fluctuations through the use of currency and interest rate hedging arrangements for the purposes of efficient portfolio management. The Group may alter its investment policy only with the approval of its Shareholders by ordinary resolution.

The Group seeks to create a geographically diverse portfolio of investments primarily backed by a broad range of financial assets. It will regularly monitor the extent to which the investment portfolio is concentrated in any particular country or region, asset class, industry or sector, or originator or servicer, along with any relevant risks associated with such country, region, asset class, industry, originator or servicer and the Investment Manager will rebalance the investment portfolio as and when it deems it appropriate to do so. The Group's investment policy contemplates investment primarily in subordinated tranches of ABS where the underlying portfolios of assets contain a number of exposures that are sufficiently diverse or, in the Investment Manager's terminology, "granular" to ensure that the Group is not unduly exposed to any single obligor. The Investment Manager believes that such granularity, further enhances stability in the performance of such investments. The Group's primary target investments will be interests in and/or exposures to ABS that have subordinated claims to cash flows generated by portfolios of consumer or commercial financial assets including, without limitation, residential mortgages, credit card receivables, auto loans, student loans, commercial real estate loans and leases and may include ABS backed by pools of small and medium-enterprise loans that the Investment Manager determines are sufficiently granular but will not include certain collateralised debt obligations (or "CDOs") that are backed by other corporate loans or by corporate bonds. Primary Target Investments typically will have the following key characteristics. Investments will be backed by assets located primarily in the UK, continental Europe and/or the United States, investments will have prospective returns at or above the level targeted by the Investment Manager at the time of purchase. Such target returns will be adjusted by the Investment Manager from time to time to reflect changing market conditions. The prospective returns on investments targeted by the Investment Manager will typically be 10 per-cent per annum or higher, the portfolio will have a varied duration profile with the duration of individual investments generally ranging from six months to 10 years, investments will represent non-investment grade risk and may constitute residual income positions, (i) acquired in the secondary market; (ii) structured by a third party to the Investment Manager's specification in a primary market transaction; or (iii) arising out of transactions where the Investment Manager works directly with asset originators and investments will be held to maturity (or earlier redemption/repayment by the issuer/borrower) rather than traded prior to maturity.

Investment Policy

While the Group will have the flexibility to invest in assets that do not have all of the characteristics listed above, such as, inter alia, direct real estate investments and mezzanine loans, the Group has adopted a policy, which is set out in the Investment Management Agreement which requires that at least 70 per-cent of its net asset value will comprise Primary Target Investments, measured at the time of and after giving effect to each proposed new or additional investment or at the time of any disposal by reference to the latest then available net asset value. If upon such a measurement the Investment Manager determines that less than 70 per-cent of the portfolio comprises Primary Target Investments, the Investment Manager has agreed with the Group to take such action, including the sale of assets, as would be necessary to correct this imbalance prior to acquiring any further assets which do not qualify as Primary Target Investments. The Investment Manager will monitor adherence to this investment policy. The structure of the Group's investments and, in particular, residual income positions, may take many different forms including, without limitation, securities, subordinated bonds, subordinated loans, mortgage early redemption certificates, preference shares, deferred purchase price, or the right to receive certain cash reserves.

The Board of Directors has adopted general guidelines for investments and borrowings to the effect that except in the case of cash deposits awaiting investment, no more than 20 per-cent of the gross assets of the Group will be lent to or invested in any one Group or group at the time the investment or loan is made, no more than 20 per-cent of the Group's gross assets will be invested directly in real estate assets, no more than 10 per-cent of the gross assets of the Group will be invested in other listed investment companies (including listed investment trusts), except where the investment companies themselves have stated investment policies to invest no more than 15 per-cent of their gross assets in other listed investment companies (including listed investment trusts), no more than 15 per-cent of the gross assets of the Group will be invested in other listed investment companies (including listed investment trusts), regardless of their investment policies and the Group will not take legal control, or seek to take legal control, or be actively involved in the management of, any companies or businesses in which it invests, except for (i) any SPVs it may establish and (ii) pursuant to the exercise of rights as a consequence of the Group taking steps to preserve or enforce its security in relation to a particular investment. The Group will not, to a significant extent, be a dealer in investments and neither the Group nor any member of its Group will conduct a trading activity which is significant in the context of the Group as a whole.

The Group will not co-invest with the Investment Manager, any of its affiliates or other funds managed by the Investment Manager (other than Group affiliates) unless (i) the co-investment is otherwise in accordance with the Group's investment guidelines and (ii) the terms of such co-investment are at least as favourable to the Group as to the Investment Manager or such affiliate or other managed fund (as applicable) making such co-investment. Shareholders will be informed in the annual report and accounts of the Group of the actions taken by the Investment Manager in the event of any breach of the above investment restrictions which the Directors consider to have been material during the year in question. In accordance with the requirements of the Financial Services Authority the Group will alter its investment policy only with the approval of its Shareholders by ordinary resolution and distributable income is expected to be derived from investment and neither the Group nor any of its consolidated SPVs will conduct any trading activity which is significant in the context of the Group as a whole.

At any given time, certain geographic areas, asset types or industry sectors may provide more attractive investment opportunities than others and, as a result, the Group's investment portfolio may be concentrated in those geographic areas, asset types or industry sectors. Other than as described above, there are no restrictions regarding the concentration of the Group's investment portfolio. However, the Investment Manager will regularly monitor concentration in the Group's investment portfolio, together with any relevant risks associated with the geographic areas, asset types and industry sectors in question, and will take steps to adjust the balance of the investment portfolio when it deems it appropriate to do so. The Group expects that the UK, continental Europe, and the United States will be the largest regional exposures, and as noted above, the Group's Primary Target Investments will be backed by collateral located primarily in the UK, continental Europe, and the United States.

Investment Policy

Within the limits of its investment policy, the Group may utilise leverage for the sole purpose of financing its portfolio and enhancing returns to Shareholders. The Group has adopted a policy, which is set out in the Investment Management Agreement, which requires that (except for temporary warehouse finance arrangements or temporary borrowings to finance short-term cash requirements) leverage as a percentage of that part of the Group's total portfolio that comprises Primary Target Investments (measured on a gross asset basis) will not exceed 30 per-cent (of which no single Primary Target Investment (measured on a gross asset basis) may be more than 50 per-cent Funded with leverage) and leverage as a percentage of that part of the Group's total portfolio that comprises assets that are not Primary Target Investments (measured on a gross asset basis) will not exceed 95 per-cent. The magnification of the adverse impact of defaults in investments and their underlying assets and increased interest expense on borrowings could adversely affect the Group's net asset value and the level of its dividends. Breach of financing arrangements such as cross-default provisions and financial covenants could give rise to additional loss. Borrowings could adversely affect the Group's net asset value and the level of the Group's dividends. The Group may borrow to fund the acquisition of additional investments and, where appropriate, may utilise leverage in order to enhance returns to Shareholders. These borrowings may be secured against some or all of the Group's assets. The application of leverage to an investment magnifies the adverse impact caused by defaults in the underlying investment portfolio. Also, since the Group's investments are typically subordinated to more senior claims on the underlying assets, any borrowings by the Group would be incremental to the leverage already inherent in those investments. Therefore, in the event of a default in the assets underlying investments in the Group's portfolio, the level of losses suffered by the Group would be proportionately higher as a function of the aggregate leverage implicit in each of the Group's investments and a relatively small increase in the rate of defaults could have a materially detrimental effect on returns to Shareholders. The Group's earnings will be generated from the difference between income received and interest expense plus certain gains or losses arising from the sale of assets.

QUEEN'S WALK INVESTMENT LIMITED

Corporate Governance Statement

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

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

Going Concern

The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Regarding the ongoing funding (per notes 14 and 21) the Directors have taken into account the current cash balance, the forecast cash inflows from the investments, the required financing repayments and operating expenses, and consider the Company able to meet the required repayment of the loan in accordance with the agreed schedule of repayments. In addition, the Directors note the cash resources currently available (Euro 18.7m) some of which will be used to pay the proposed dividend, which are sufficient to cover normal operational costs and current liabilities.

Board effectiveness

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

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

The Audit Committee is chaired by Mr Spencer and its other members are Mr Morgan and Mr Hawkins. Only independent Directors serve on the Audit Committee and members of the Audit Committee have no links with the Group's external Auditors and are independent of the Investment Manager. The terms of reference state that the Audit Committee will meet not less than twice a year and will meet the external Auditors at least once a year, without the non-independent Director present.

The Audit Committee is responsible for overseeing the Group's relationship with the external Auditors, including making recommendations to the Board on the appointment of the external Auditors and their remuneration. The Audit Committee is required to consider the nature, scope and results of the Auditors' work and reviews, and develop and implement policy on the supply of any non-audit services that are to be provided by the external auditors. It receives and reviews reports from the Investment Manager and the Group's external auditors relating to the Group's annual report 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 and Mr Spencer. The members of the nomination committee are and will be independent Directors. The terms of reference state that the

QUEEN'S WALK INVESTMENT LIMITED

Corporate Governance Statement

Board effectiveness (continued)

Nomination Committee will meet not less than once a year, will have responsibility for considering the size, structure and composition of the Board, and retirements and appointments of additional and replacement Directors and that the Nomination Committee will make appropriate recommendations to the Board.

The following table shows the number of regularly scheduled meetings held by the Board and each committee for the year ended 31 March 2009 as well as the number of attendances at each meeting.

	Board Meeting Attendance	Audit Committee Meeting Attendance
Board of Directors		
Tom Chandos	3/4	N/A
Talmai Morgan	3/4	4/4
Christopher Spencer	4/4	4/4
John Hawkins	3/4	3/4
Graham Harrison	4/4	N/A

During the year ended 31 March 2009 there were also 6 extra board meetings and 1 nomination committee meeting.

None of the Directors have a service contract.

The Nomination Committee meeting was held on 15 June 2009. Graham Harrison and John Hawkins will be put forward for re-election at the forthcoming AGM, having served as Directors of the Company from the Company's inception.

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

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 Citigroup Global Markets Limited and Goldman Sachs International as corporate brokers. From these parties and the Investment Manager, the Board expects to be informed of the views of the Company's major shareholders.

Internal Controls

The Directors acknowledge that they are responsible for establishing and maintaining the Group's system of internal control and reviewing its effectiveness. The Directors review not just internal controls but all controls including operations, compliance and risk management.

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 Kleinwort Benson (Channel Islands) Fund Services Limited. The Sub-Administrator to which certain functions are delegated is Investors Fund Services (Ireland) Limited. Custody of assets is undertaken by Investors Trust & Custodial Services (Ireland) Limited. Regular compliance reports are received by the Board.

QUEEN'S WALK INVESTMENT LIMITED

Directors' Remuneration Report

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.

This report describes how the Board has applied the Principles of Good Governance relating to Directors' remuneration. A resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be presented for approval.

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

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:

	<u>Year ended</u> <u>31 March</u> <u>2009</u> <u>Euro</u>	<u>Year ended</u> <u>31 March</u> <u>2008</u> <u>Euro</u>
Tom Chandos	120,000	120,000
Graham Harrison	30,000	30,000
John Hawkins	30,000	30,000
Talmay Morgan	30,000	30,000
Christopher Spencer	30,000	30,000
Total Directors' emoluments	<u>240,000</u>	<u>240,000</u>

During the year, Talmay Morgan and Graham Harrison each received Euro 12,500 (2008: Euro 12,500) in their capacity as Directors of Trebuchet Finance Limited.

QUEEN'S WALK INVESTMENT LIMITED

Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards (IFRSs). Company law requires the Directors to prepare such financial statements which give a true and fair view and are in accordance with The Companies (Guernsey) Law, 2008.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs.

Directors are also required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report which complies with the requirements of The Companies (Guernsey) Law, 2008.

The Directors are responsible for the maintenance and integrity of the company website. Legislation in Guernsey and the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards, give true and fair view of the assets, liabilities, financial position and profit or loss of the Company 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 Company 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
Director

Talmi Morgan
Director

16 June 2009

QUEEN'S WALK INVESTMENT LIMITED

Independent Auditors' report to the members of Queen's Walk Investment Limited

We have audited the consolidated financial statements of Queen's Walk Investment Limited (the "financial statements") for the year ended 31 March 2009 which comprise the Consolidated Income Statement, Consolidated Statement of Changes in Shareholders' Equity, Consolidated Balance Sheet, Consolidated Cash Flow Statement and related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

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 Auditors' 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 Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with International Financial Reporting Standards and applicable Guernsey law are set out in the Directors' Responsibilities Statement.

Our responsibility is to audit the financial statements in accordance with relevant Guernsey legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the International Financial Reporting Standards and whether the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 2008. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. The other information comprises only the Chairman's Statement, Investment Manager's Report, Directors' Report, the Corporate Governance Statement and the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed. We are not required to review any Corporate Governance disclosures required by The Listing Rules of the Financial Services Authority as the Group has availed itself of an exemption, as an overseas company, from the requirement to publish a statement of compliance with The Combined Code.

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

QUEEN'S WALK INVESTMENT LIMITED

Independent Auditors' report to the members of Queen's Walk Investment Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view in accordance with International Financial Reporting Standards of the state of the Group's affairs as at 31 March 2009 and of the Group's loss for year ended 31 March 2009 and have been properly prepared in accordance with The Companies (Guernsey) Law, 2008.

Added emphasis regarding the valuation of the Group's investments

Without qualifying our opinion we draw your attention to notes 2 and 3 of the financial statements, which describe the policy adopted by the Directors for fair valuing the Group's investments. In accordance with this policy and the requirements of International Accounting Standard 39 "Financial Instruments: Recognition and Measurement", the Directors have estimated the fair value of the investments at Euro 108,331,353 at 31 March 2009.

As described in notes 2 and 3 of the financial statements, the Group's investments in asset backed securities are illiquid. As a result of this the 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.

Deloitte LLP

Chartered Accountants
Guernsey, Channel Islands

16 June 2009

QUEEN'S WALK INVESTMENT LIMITED

Consolidated Income Statement

For the year ended 31 March 2009

	Note	Year ended 31 March 2009 Euro	Year ended 31 March 2008 Euro
Interest income	5	21,669,409	39,057,501
Gains and losses on fair value through profit or loss financial instruments	4	<u>(74,873,145)</u> <u>(53,203,736)</u>	<u>(50,246,378)</u> <u>(11,188,877)</u>
Operating expenses	7	(4,462,662)	(7,406,746)
Finance costs	5	(2,197,946)	(3,500,463)
Net loss		<u>(59,864,344)</u>	<u>(22,096,086)</u>
Loss per Ordinary Share			
Basic	9	Euro (2.13)	Euro (0.59)
Diluted	9	Euro (2.13)	Euro (0.59)
Weighted average Ordinary Shares outstanding			
		Number	Number
Basic	9	28,161,648	37,161,527
Diluted	9	28,161,648	37,161,527

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

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

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

QUEEN'S WALK INVESTMENT LIMITED

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 March 2009

		Share Capital	Reserves	Total
	Note	Euro	Euro	Euro
Balance at 31 March 2007		-	294,153,685	294,153,685
Net loss for the year		-	(22,096,086)	(22,096,086)
Buy back of Ordinary Shares	17,18	-	(52,997,681)	(52,997,681)
Distribution to the Ordinary Shareholders of the Company	8	-	(21,915,499)	(21,915,499)
Balance at 31 March 2008		-	197,144,419	197,144,419
Net loss for the year		-	(59,864,344)	(59,864,344)
Buy back of Ordinary Shares	17,18	-	(18,848,906)	(18,848,906)
Distribution to the Ordinary Shareholders of the Company	8	-	(12,846,078)	(12,846,078)
Balance at 31 March 2009		-	105,585,091	105,585,091

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

QUEEN'S WALK INVESTMENT LIMITED

Consolidated Balance Sheet

As at 31 March 2009

	Note	31 March 2009 Euro	31 March 2008 Euro
Non-current assets			
Investments at fair value through profit or loss	6,11	108,331,353	204,790,989
		<u>108,331,353</u>	<u>204,790,989</u>
Current assets			
Cash and cash equivalents		18,661,098	32,934,817
Derivative financial assets– options held for trading	6,11	5,858,210	2,171,475
Derivative financial assets–unrealised gain on foreign exchange contracts	6,13	-	990,215
Derivative financial assets–unrealised gain on interest rate swap agreements	6,13	3,512,780	8,344
Other assets	12	1,663,496	2,395,741
		<u>29,695,584</u>	<u>38,500,592</u>
Total assets		<u>138,026,937</u>	<u>243,291,581</u>
Equity and liabilities			
Equity			
Share capital	17	-	-
Reserves	18	105,585,091	197,144,419
		<u>105,585,091</u>	<u>197,144,419</u>
Current liabilities			
Distribution payable	8	2,131,573	4,645,192
Derivative financial liabilities–interest rate swap agreements	6,13	-	13,583
Other liabilities	16	804,234	988,387
		<u>2,935,807</u>	<u>5,647,162</u>
Non-current liabilities			
Loans	14	29,506,039	40,500,000
		<u>29,506,039</u>	<u>40,500,000</u>
Total liabilities		<u>32,441,846</u>	<u>46,147,162</u>
Total equity and liabilities		<u>138,026,937</u>	<u>243,291,581</u>

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

These financial statements were approved by the Board of Directors on 16 June 2009.

Signed on behalf of the Board of Directors by:

Christopher Spencer
Director

Talmi Morgan
Director

QUEEN'S WALK INVESTMENT LIMITED

Consolidated Cash Flow Statement

For the year ended 31 March 2009

	Note	Year ended 31 March 2009 Euro	Year ended 31 March 2008 Euro
Net cash inflow from operating activities	19	30,942,199	169,826,826
Financing activities			
Net (repayment) / drawdown of borrowings from loans		(10,993,961)	40,500,000
Net borrowings under repurchase agreements		-	(119,773,090)
Dividends paid to shareholders	8	(15,359,697)	(26,613,081)
Buy back of share capital		(18,848,906)	(52,997,701)
Cash flows from financing activities		<u>(45,202,564)</u>	<u>(158,883,872)</u>
Net (decrease)/increase in cash		<u>(14,260,365)</u>	<u>10,942,954</u>
Reconciliation of net cash flow to movement in net cash			
Net (decrease)/increase in cash and cash equivalents		(14,260,365)	10,942,954
Cash and cash equivalents at start of year		32,934,817	22,026,122
Effect of exchange rate fluctuations on cash and cash equivalents		(13,354)	(34,259)
Cash and cash equivalents at end of year		<u>18,661,098</u>	<u>32,934,817</u>

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

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

1. General information

Queen's Walk Investment 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 a closed-ended investment company with limited liability formed under The Companies (Guernsey) Law, 2008 and its Ordinary Shares are listed on the London Stock Exchange. The registered office of the Company is Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 3BG, Channel Islands. "Group" is defined as the Group and its subsidiary. At 31 March 2009, the Group's only subsidiary was Trebuchet Finance Limited.

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

The Group's investment management activities are managed by its Investment Manager, Cheyne Capital Management (UK) LLP (the "Investment Manager"), an investment management firm authorised and regulated by the Financial Services Authority. The Group has entered into an Investment Management Agreement (the "Investment Management Agreement") under which the Investment Manager manages its day-to-day investment operations, subject to the supervision of the Company's Board of Directors. The Group has no direct employees. For its services, the Investment Manager receives a monthly management fee (which includes a reimbursement of expenses) and a quarterly performance-related fee. The Group has no ownership interest in the Investment Manager. The Company is administered by Kleinwort Benson (Channel Islands) Fund Services Limited (the "Administrator"). Investors Fund Services (Ireland) Limited provide certain administration services to the Group in its capacity as sub-administrator.

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 Interpretations issued not yet effective

At the date of authorisation of these financial statements, the following standards, including amendments and interpretations had been issued but were not yet effective:

Amendments to IFRS 7: Financial Instruments – Disclosures was issued by the IASB on 5 March 2009. These amendments aim to improve disclosures about fair value measurement (based on the US Standard FAS 157) and liquidity risk. The amendments require the inclusion of an explicit three-level fair value hierarchy which groups fair value measurements based on their observability and requires numerical disclosure of fair values recognised in a tabular format organised by the level within the fair value hierarchy. The amendments are effective for annual periods beginning on or after 1 January 2009. In the first year of application entities are not required to provide comparative information for the new disclosures.

Amendments to IFRS 8 - Operating Segments is effective for periods beginning 1 January 2009. This standard replaces IAS14 Segmental Reporting and places emphasis on the "management approach" to reporting operating segments.

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

2. Significant accounting policies (continued)

Standards and Interpretations issued not yet effective (continued)

There are a number of other International Financial Reporting Standards and Interpretations which are in issue but have not been applied in these financial statements as they are not yet effective. The Directors anticipate that the adoption of these Standards and Interpretations will have no material impact on the financial statements of the Group.

Basis of preparation

The Financial Statements of the Group are prepared under International Financial Reporting Standards on the historical cost or amortised cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading and financial instruments classified or designated as fair value through profit or loss.

The majority of the Group's investments are financial instruments that are classified as fair value through profit or loss. Where bid prices are not available from a third party in a liquid market, the fair value of the financial instrument is estimated by reference to market information, which includes but is not limited to broker marks, prices on comparable assets and a pricing model that incorporates 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. Where such pricing models are used, assumptions are reviewed and updated on the basis of actual performance data as it is received and on the basis of market conditions as at the balance sheet date. See note 2 – *Fair Value* and *Interest Income* and note 3 – *Critical accounting judgements and key sources of estimation uncertainty* for further information regarding assumptions and critical judgements.

The Directors believe it is appropriate to adopt the going concern basis in preparing the financial statements as, after due consideration, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Regarding the ongoing funding (per notes 14 and 21) the Directors have taken into account the current cash balance, the forecast cash inflows from the investments, the required financing repayments and operating expenses, and consider the Company able to meet the required repayment of the loan in accordance with the agreed schedule of repayments. In addition, the Directors note the cash resources currently available (Euro 18m) some of which will be used to pay the proposed dividend, which are sufficient to cover normal operational costs and current liabilities.

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

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 2009, 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.

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

2. Significant accounting policies (continued)

Basis of consolidation (continued)

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 Company. The Company does not consolidate any of the SPEs in which it holds a residual income position as it is not exposed to the majority of the risks and benefits of the assets owned by the relevant SPEs and does not control any of them.

Investments

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

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

Cash and cash equivalents

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

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 trading instruments. The Group may also enter into credit default or total return swap arrangements where the underlying asset or assets would otherwise be within the Group's investment policy in order to obtain substantially the same economic exposure to the returns and risks associated with holding such underlying asset or assets.

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 income statement.

Fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. The change in value is recorded in net gains/(losses) in the consolidated income statement. Realised gains and losses are recognised on the maturity of a contract, or when a contract is closed out and they are transferred to realised gains or losses in the consolidated income statement.

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

Total return swap agreements and credit default swap agreements are fair valued on the date of valuation based upon the underlying market value of the reference asset using the approach explained under fair value. The change in value is recorded in net gains/(losses) in the consolidated income statement. Realised gains and losses are recognised on the maturity of a contract, or when a contract is closed out and they are transferred to realised gains or losses in the consolidated income statement.

Fair value of options is their quoted market price at the balance sheet date. Broker marks are obtained for these positions. The change in value is recorded in net gains/(losses) in the consolidated income statement. Realised gains and losses are recognised on the maturity or sale of the option.

Notes to the Financial Statements

2. Significant accounting policies (continued)

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 on 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 the price at which an orderly transaction would take place between market participants on the measurement date; it is not a forced liquidation or distressed sale. Where the Company has considered all available information and there is evidence that the transaction was forced, it will not use a transaction price as being determinative of fair value.

Where a forced sale price is not used the Company will estimate the fair value with reference to other market data as described above.

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 available that may be available in respect of any of these factors for the particular asset class.

Offsetting financial instruments

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

Derecognition of a financial asset

A financial asset is derecognised only if substantially all of the asset's risks and rewards of ownership are transferred or control is transferred in the event that not substantially all of the asset's risks and rewards of ownership are transferred. However, if substantially all of the risks and rewards are retained, the asset is not derecognised. Control is transferred if the transferee has the practical ability to sell the asset unilaterally without needing to impose additional restrictions on the transfer.

Interest-bearing loans and borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. 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 income statement using the effective interest rate method. Financing costs associated with the issuance of financings are recognised in the consolidated income statement using the effective interest rate method.

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 balance sheet date are translated to Euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euro at foreign exchange rates ruling at the dates the fair value was determined.

Transaction expenses

The preliminary expenses of the Group directly attributable to its initial public offering and any costs associated with the establishment of the Group are charged to the share premium or other reserve account.

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

2. Significant accounting policies (continued)

Transaction expenses (continued)

Share options granted to the Investment Manager are treated as a transaction expense on the basis that they are granted by the Group as a fee for the Investment Manager's work in raising capital for the Group. The fair value of such options is charged to the share premium account. The share premium account is credited with the fair value of such options at the time that such options are vested.

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 the consolidated income statement by reflecting changes in a revised amortised cost value of the investment and applying the original effective interest rate to this revised amortised cost value for the purposes of calculating future income.

Taxation

The Company is a tax-exempt Guernsey limited Company. Accordingly, no provision for income taxes 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 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.

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.

Other accruals and payables

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

Business and geographical segments

The Directors are of the opinion that the Group is engaged in a single segment of business of investing in debt securities and operates solely from Guernsey and therefore no segmental reporting is provided.

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 financial statements:

Income recognition

The Group invests primarily in a diversified portfolio of residual income positions, being the subordinated tranches of asset-backed securities ("ABS"). 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.

Notes to the Financial Statements

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

Income recognition (continued)

Unlike a more conventional debt instrument and the more senior tranches of ABS (which generally hold the rights to fixed levels of income), the cash flow profile of a residual income position does not 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 Group follows a policy of accounting for such investments at fair value through profit or loss and has elected to recognise income on an effective interest rate ("EIR") method in accordance with paragraph 30 of IAS 18 "Revenue".

The carrying 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 carrying value (adjusted to account for the accrual of interest and principal paydowns) is subject to further adjustment on the basis of market conditions and other factors that are likely to affect the fair value of the asset. Where actual performance data or expectations regarding defaults, delinquencies and prepayments received in respect of a given asset is notably different from the default, delinquency and prepayment assumptions incorporated in the pricing model for the asset, the assumptions are revised to reflect this data and the pricing model is updated accordingly. In addition to the actual performance data observed in respect of a particular asset, market factors are also taken into account within the model. Broker marks (where available) and any other available indicators are assessed to determine whether or not the market is attributing higher or lower default, delinquency or prepayment expectations to similar assets in determining whether or not the assumptions incorporated in the pricing model remain reasonable.

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

Valuation of investments

The market for subordinated asset-backed securities, including residual income positions is illiquid and regular traded prices are generally not available for such investments. There is no active secondary market in residual income positions and, further, there is no industry standard agreed methodology to value residual income positions.

In accordance with the Group's accounting policies, fair value of financial assets is based on quoted bid prices where such bids are available from a third party in a liquid market. At 31 March 2009 bid prices were not available for any of the Group's investments. There is very limited information available in relation to transactions in comparable investments. As quoted bid prices are unavailable, the fair value of the investments 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. Broker marks are estimates of values provided by market participants who are typically the originators of the investments.

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

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

Valuation of investments (continued)

Broker marks are not binding prices and there is no guarantee that the Group could transact at these prices in the current market. Due to the current market conditions, the Company has relied on pricing models to fair value its investments as broker marks become less reliable or unobtainable.

The assumptions upon which the pricing models are based are described in note 2 (*Fair Value*). Any change to assumptions surrounding the pricing models may result in different fair values being attributed to the investments. Where the fair value of the investment is written down due to changes in assumptions and expected cash flows, the change in the fair value is taken to the consolidated income statement following the reassessment of the cash flows discounted at the current market rate estimated for the investment.

The fair value of the Group's investments is set out in note 11 and a further description of the risks associated with the Group's investments is provided in note 15. Given the number of individual investments and the number of individual parameters that make up 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. A summary of the impact of changes to assumptions by reference to asset category is provided in note 15.

4. Gains and losses on financial instruments

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

	Year ended 31 March 2009 Euro	Year ended 31 March 2008 Euro
Net realised gains/(losses)		
Net realised losses on Asset Backed Securities	(60,706,822)	(24,994,169)
Net realised losses on Total Return Swaps	-	(36,058,842)
Net realised losses on Options*	(840,000)	-
Net realised gains on foreign exchange	1,787,538	13,737,394
Net realised losses	<u>(59,759,284)</u>	<u>(47,315,617)</u>
Net unrealised gains/(losses)		
Net unrealised losses on investments at fair value through profit or loss	(20,204,444)	(39,802,565)
Net unrealised gain on Swap investments	3,518,019	-
Net unrealised gains on Options	2,576,133	491,479
Net unrealised gains on Total Return Swaps	-	36,453,698
Net unrealised losses on investments held for trading	-	(2,179,637)
Net unrealised losses on foreign exchange bank balances	(13,354)	-
Net unrealised (losses)/gains on foreign exchange instruments	(990,215)	2,106,264
Net unrealised losses	<u>(15,113,861)</u>	<u>(2,930,761)</u>
Net realised and unrealised losses	<u>(74,873,145)</u>	<u>(50,246,378)</u>

* Following an event of default notice submitted on 3 October 2008 to Lehman Brothers International (Europe) under the option contract, the Group wrote the value of the Lehman HPI option down to an estimate of the recoverable amount. The estimated amount, 8.625%, has been transferred from options to other assets in the balance sheet.

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

5. Interest income and finance costs

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

	Year ended 31 March 2009 Euro	Year ended 31 March 2008 Euro
Interest income		
Investments designated at fair value through profit or loss upon initial recognition	21,355,186	35,167,326
Investments held for trading	-	2,937,158
Loans and receivables (including cash and cash equivalents)	314,223	953,017
Total interest income	21,669,409	39,057,501
Finance costs:		
<i>Liabilities held at amortised cost:</i>		
Interest on loan	2,010,520	1,784,228
Interest on repurchase agreements	-	1,521,085
Other	187,426	195,150
Total finance costs	2,197,946	3,500,463

6. Categories of financial instruments

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

	31 March 2009 Euro	31 March 2008 Euro
<i>Financial assets designated at fair value through the profit or loss:</i>		
Investments	108,331,353	204,790,989
<i>Held for trading:</i>		
Call and put options	5,858,210	2,171,475
Interest rate swap agreements	3,512,780	8,344
Forward foreign exchange contracts	-	990,215
<i>Loans and receivables:</i>		
Cash and cash equivalents	18,661,098	32,934,817
Other assets	1,663,496	2,395,741
Total assets	138,026,937	243,291,581
Liabilities		
<i>Held for Trading:</i>		
Interest rate swap agreements	-	13,583
<i>Liabilities held at amortised cost:</i>		
Other liabilities	2,935,807	5,633,579
Loans	29,506,039	40,500,000
Total liabilities	32,441,846	46,147,162

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

7. Operating expenses

	Note	Year ended 31 March 2009 Euro	Year ended 31 March 2008 Euro
Investment management, custodian and administration fees			
Investment management and incentive fee	20	2,617,240	4,317,481
Administration fee	20	197,439	371,803
Custodian fee	20	47,816	39,523
		<hr/>	<hr/>
		2,862,495	4,728,807
Other operating expenses			
Audit fees		171,598	164,100
Directors' fees payable to Directors of Queen's Walk Investment Limited		240,000	240,000
Directors' fees payable to Directors of Trebuchet Finance Limited		25,000	27,806
Legal fees		591,432	710,407
Fees relating to corporate advisory services*		-	409,459
Margin commissions		-	388,816
Pricing expenses		63,319	176,830
Other expenses		508,818	560,521
		<hr/>	<hr/>
		1,600,167	2,677,939
		<hr/>	<hr/>
Total operating expenses		4,462,662	7,406,746

The Group has no employees.

* These fees were payable to Deloitte & Touche LLP.

8. Dividends

	Year ended 31 March 2009 Euro	Year ended 31 March 2008 Euro
Fourth interim dividend for the year ended 31 March 2007	-	6,093,114
First interim dividend for the year ended 31 March 2008	-	5,944,410
Second interim dividend for the year ended 31 March 2008	-	5,232,783
Third interim dividend for the year ended 31 March 2008	-	4,645,192
Fourth interim dividend for the year ended 31 March 2008	4,535,685	-
First interim dividend for the year ended 31 March 2009	4,030,449	-
Second interim dividend for the year ended 31 March 2009	2,148,371	-
Third interim dividend for the year ended 31 March 2009	2,131,573	-
	<hr/>	<hr/>
Amounts recognised as distributions to equity holders in the year	12,846,078	21,915,499

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

8. Dividends (continued)

	Year ended 31 March 2009	Year ended 31 March 2008
	Euro per share	Euro per share
Fourth interim dividend for the year ended 31 March 2007	-	0.15
First interim dividend for the year ended 31 March 2008	-	0.15
Second interim dividend for the year ended 31 March 2008	-	0.15
Third interim dividend for the year ended 31 March 2008	-	0.15
Fourth interim dividend for the year ended 31 March 2008	0.15	-
First interim dividend for the year ended 31 March 2009	0.15	-
Second interim dividend for the year ended 31 March 2009	0.08	-
Third interim dividend for the year ended 31 March 2009	0.08	-
	<hr/>	<hr/>
Amounts recognised as distributions to equity holders in the year	0.46	0.60

The third interim dividend for the year ended 31 March 2009 of Euro 0.08 per share was declared on 18 March 2009 and an amount of Euro 2,131,573 was paid on 17 April 2009.

The fourth interim dividend for the year ended 31 March 2009 of Euro 0.08 per share was declared on 16 June 2009 and has not been included as a liability in these financial statements.

The Group's objective is to provide shareholders with stable returns in the form of quarterly dividends. The Group's dividend policy is to make dividend distributions from its distributable net income subject to retaining a portion of such income as a reserve for payment in subsequent periods.

Following the introduction of the Companies (Guernsey) Law, 2008, the Group is only able to pay a dividend if the Board of Directors is satisfied that the Company will, immediately after the payment, satisfy the solvency test and any other requirement in its Memorandum and Articles. The Board is satisfied that, in every respect of the proposed dividend and the dividends paid in respect of the year ended 31 March 2009 that the solvency test was satisfied.

9. Loss per ordinary share

	Year ended 31 March 2009	Year ended 31 March 2008
	Euro	Euro
<i>The calculation of the basic and diluted earnings per share is based on the following data:</i>		
Loss for the purposes of basic earnings per share being net loss attributable to equity holders	<hr/> (59,864,344)	<hr/> (22,096,086)
Weighted average number of Ordinary Shares for the purposes of basic earnings per share	28,161,648	37,161,527
<i>Effect of dilutive potential Ordinary Shares:</i>		
Share options	<hr/> -	<hr/> -
Weighted average number of Ordinary Shares for the purposes of diluted earnings per share	<hr/> <hr/> 28,161,648	<hr/> <hr/> 37,161,527

There is no dilution as at 31 March 2009 or 31 March 2008 as the share price was below the option price on that date.

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

10. Subsidiary

Trebuchet Finance Limited was incorporated in Ireland on 19 May 2005 and, pursuant to the Articles of Association of Trebuchet Finance Limited, the Group has the right to appoint a majority of the Board of Directors of Trebuchet Finance Limited. Two of the Directors of the Group have been appointed Directors of Trebuchet Finance Limited. To ensure that the Group will be able to maintain a majority of the Board of Directors of Trebuchet Finance Limited in the future, the Group has been allotted a single share in Trebuchet Finance Limited carrying the right to appoint a majority of the Board of Directors. Trebuchet Finance Limited was established for the sole purpose of acquiring and holding interests in certain assets.

11. Investments

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

	31 March 2009	31 March 2008
	Euro	Euro
Asset-backed securities at fair value through profit or loss	108,331,353	204,790,989
Options purchased held for trading	6,010,690	2,171,475
Options written held for trading	(152,480)	-
	<u>114,189,563</u>	<u>206,962,464</u>
	31 March 2009	31 March 2008
	Euro	Euro
Asset-backed securities		
Opening cost	326,365,867	430,814,877
Purchases	7,433,191	21,118,567
Sales proceeds	-	(51,946,581)
Realised loss	(60,706,822)	(24,994,142)
Principal payups	6,106,944	-
Principal paydowns	(29,088,505)	(48,626,854)
Closing cost	<u>250,110,675</u>	<u>326,365,867</u>
Unrealised losses	(141,779,322)	(121,574,878)
Asset-backed securities at fair value	<u>108,331,353</u>	<u>204,790,989</u>

The following options contracts were open as at 31 March 2009:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Unrealised Gains/ (Losses) Euro
Credit Suisse	05 Nov 2009	Halifax HPI Put Option	Euro	14,000,000	583.02	3,133,284
Goldman Sachs	29 Dec 2010	EUR Call GBP Put	Euro	10,000,000	0.9315	(245,760)
Goldman Sachs	29 Dec 2010	EUR Call GBP Put (Written option)	Euro	10,000,000	1.300	17,520
Societe Generale	18 Sep 2009	Mdax Index Put Option	Euro	3,385	4,750.00	(871,893)
Societe Generale	29 Dec 2010	Mdax Index Put (Written option)	Euro	3,385	4,000.00	1,034,456
						<u>3,067,607</u>

In the quarter ended 31 December 2008 the Company updated its methodology and process in respect of hedging its foreign exchange risk. The foreign exchange (FX) risk arises from holding assets in different currencies to the Company's base currency of Euros. Previously, the Company used rolling quarterly forwards to hedge its FX exposure.

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

11. Investments (continued)

However, recent large changes in exchange rates were creating excessive margin requirements and required the Company to maintain large cash balances. As a result, the Company has elected to hedge its FX exposure by purchasing a two year Euro: Sterling FX option.

This approach enables the Company to remain hedged against increases in the Euro: Sterling FX rate, while being able to participate in favourable FX moves and not being subject to further margin calls. To reduce the cost of this hedge, an out-of-the-money EUR call / GBP put option was sold with the same notional and maturity.

The following options contracts were open as at 31 March 2008:

Counterparty	Expiration	Description	Currency	Notional Amount	Strike price	Unrealised Gains/(Losses) Euro
Credit Suisse Lehman	05 Nov 2009	Halifax HPI Put Option	Euro	14,000,000	583.02	245,738
Brothers	31 Oct 2009	HBOS HPI Put Option	Euro	14,000,000	583.02	245,737
						<u>491,475</u>

12. Other assets

	31 March 2009 Euro	31 March 2008 Euro
Interest receivable on investment portfolio	1,306,136	2,344,222
Lehman claim	268,876	-
Interest receivable on cash and cash equivalents	88,484	51,519
	<u>1,663,496</u>	<u>2,395,741</u>

The Directors consider that the carrying amount of other assets approximates their fair value.

13. Derivative contracts

The following interest rate and balance guaranteed interest rate swaps were unsettled at 31 March 2009.

31 March 2009

Termination Date	Counterparty	Initial Notional Amount (GBP)	Unrealised Gain/(Loss) Euro
25 January, 2013	Goldman Sachs	451,431	14,727
15 October, 2011	Goldman Sachs	5,500,000	122,883
15 November, 2011	Goldman Sachs	1,300,000	29,508
30 October, 2010	Goldman Sachs	445,635	264
25 January, 2013	Goldman Sachs	1,226,713	41,018
15 October, 2011	Goldman Sachs	3,000,000	46,084
12 September, 2011	Goldman Sachs	1,900,000	27,279
15 November, 2011	Goldman Sachs	1,200,000	15,881
27 March, 2011	Goldman Sachs	17,348,100	1,008,974
15 January, 2011	Goldman Sachs	13,054,947	593,308
15 February, 2011	Goldman Sachs	29,725,589	1,612,854
			<u>3,512,780</u>

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

13. Derivative contracts (continued)

31 March 2008

Termination Date	Reference Transaction	Initial Notional Amount (GBP)	Unrealised Gain/(Loss) Euro
12 June 2008	RMAC 2005-NS3	186,615,582	5,775
12 June 2008	RMAC 2005-NS4	107,028,288	2,569
1 December 2008	Newgate 2006-1	411,409,139	(13,583)
			<u>(5,239)</u>

The following foreign exchange forward contracts were unsettled at 31 March 2008:

Maturity Date	Amount Bought	Amount Sold	Unrealised Gain Euro
30 June 2008	Euro 75,364,155	GBP 59,500,000	952,319
30 June 2008	Euro 5,424,205	USD 8,500,000	37,896
			<u>990,215</u>

14. Loans

	31 March 2009 Euro	31 March 2008 Euro
Loans	<u>29,506,039</u>	<u>40,500,000</u>

On 27 November 2008 the Company negotiated amended terms on a reduced facility, involving a flexible two year repayment schedule of the outstanding debt and amendments to material change clauses to reduce refinancing risk. The Company has committed to repay the outstanding balance of the facility by October 2011, pursuant to an agreed loan amortisation schedule and will not make any further draw downs. In addition, at the end of each quarter, the Company has pledged to keep the outstanding balance of the financing facility below the product of the then applicable advance rate ("Applicable Percentage") and the value of the investment portfolio plus cash (the "Borrowing Base"). At present, the Company's Borrowing Base is approximately €56.7 million versus a loan balance of €29.5 million. At the end of each calendar quarter, the Company has agreed a target loan amount ("Target Loan Amount") with the lenders. The Company has also agreed to an Applicable Percentage for every quarter. The Target Loan Amount and Applicable Percentage Schedule are detailed below:

Date	Target Loan Amount	Applicable Percentage for Residuals
31 December 2008	35,000,000	30%
31 March 2009	33,000,000	30%
30 June 2009	31,000,000	30%
30 September 2009	28,500,000	30%
31 December 2009	27,000,000	27.5%
31 March 2010	25,000,000	20%
30 June 2010	12,000,000	20%
30 September 2010	10,000,000	20%

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

14. Loans (continued)

Date	Target Loan Amount	Applicable Percentage for Residuals
31 December 2010	0	20%
31 March 2011	0	10%

The Applicable Percentage for the Company's investment grade bond portfolio will be 50%, 40%, 30% and 15% for AA and above, A and above, BBB and above and BB and above; rated bonds respectively. The Target Loan Amount will reduce by €1 million in the event that the Magellan 1 transaction is re-financed by the originator, BCP Millennium, before June 2010. The Applicable Percentage for residuals will reduce to 25% if the Magellan 1 transaction is re-financed by BCP Millennium before 31 December 2009. The Company has committed to use a percentage of its Free Cash (cash proceeds in a quarter less dividends and operating expenses) to amortise the facility. Prior to the Magellan 1 transaction being refinanced, 75% of the Company's Free Cash will be used to repay the facility. After the Magellan 1 transaction is called, 66% of the Free Cash will be used to repay the debt, and in this case once the outstanding balance of the facility is below €22 million, 50% of the Free Cash will be used to repay the facility. If the outstanding balance of the loan facility is less than the Target Loan Amount on the relevant date, the dividend will be capped at €2.25 million per quarter (or approximately a 19% dividend yield on the share price as at 26 November 2008). If the outstanding balance of the loan is greater than the Target Loan Amount, the dividend will be capped at 8% on the share price prevailing at the end of each quarter. A failure to meet the Target Loan Amount would not trigger an event of default. In the event that the balance of the facility is greater than the Borrowing Base, the Company will have 20 business days to remedy the breach. Failure to remedy the breach would constitute an event of default.

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 are exposed are market 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 will enter 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 will only be used for the purpose of efficient portfolio management.

(a) Market risk

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

The Group's strategy on the management of market risk is driven by the Group's investment objective detailed in Note 1 which is to provide stable returns to Shareholders in the form of quarterly dividends. The Group's market risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures detailed below.

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)

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

(a) Market risk (continued)

(i) Currency risk (continued)

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

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

The Group's risk management policy has been to match its foreign currency asset exposure with forward foreign exchange ("FX") transactions, with any residual currency exposure at the quarter end date due to Fair Value movements which are only calculated after the quarter end close. These hedges were then adjusted to the new currency asset value once the fair values were finalised.

In the quarter ended 31 December 2008, the Company updated its methodology and process in respect of hedging its foreign exchange risk. The previous methodology the Company used exposed the Company to large changes in exchange rates creating excessive margin requirements, and required the Company to maintain large cash balances. As a result, the Company has elected to hedge its FX exposure by purchasing a two year Euro: Sterling FX option. This approach enables the Company to remain hedged against increases in the Euro: Sterling FX rate, while being able to participate in favourable FX moves and not being subject to further margin calls. The strike price of the purchased EUR call / GBP put option was 0.9315 with an expiry of 29 December 2010. The strike price of the purchased option was at-the-money at the date of purchase. To reduce the cost of this hedge, an out-of-the-money EUR call / GBP put option was sold with the same notional and maturity but with a strike price of 1.3000. The Company monitors the anticipated currency exposure at the maturity date and can adjust the notional of the option if required. Due to the hedging options delta, which only moves closer to parity with the movement on the underlying FX rates at maturity, there may be an unrealised FX profit and loss impact until the maturity of the option.

The currency profile at 31 March 2009 was as follows:

	Total (in Euro)	Euro (in Euro)	GBP (in Euro)	USD (in Euro)
Investments at fair value through profit or loss	108,331,353	98,382,090	9,852,001	97,262
Derivative financial assets - options	5,858,210	5,858,210	-	-
Net derivative financial assets – interest rate swap agreements	3,512,780	3,382,518	130,262	-
Other assets	1,663,496	1,487,864	63,299	112,333
Cash and cash equivalents	18,661,098	17,098,765	1,552,523	9,810
Loans	(29,506,039)	(29,506,039)	-	-
Other liabilities	(2,935,807)	(2,935,807)	-	-
	105,585,091	93,767,601	11,598,085	219,405

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

15. Financial instruments (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The currency profile at 31 March 2008 was as follows:

	Total (in Euro)	Euro (in Euro)	GBP (in Euro)	USD (in Euro)
Investments at fair value through profit or loss	204,790,989	139,583,878	62,893,417	2,313,694
Derivative financial assets - options	2,171,475	2,171,475	-	-
Net derivative financial assets – interest rate swap agreements	(5,239)	-	(5,239)	-
Other assets	2,395,741	1,652,600	476,004	267,137
Foreign exchange forward contracts	990,215	80,788,360	(74,411,837)	(5,386,308)
Cash and cash equivalents	32,934,817	31,525,121	1,232,901	176,795
Loans	(40,500,000)	(40,500,000)	-	-
Other liabilities	(5,633,579)	(5,633,579)	-	-
	<u>197,144,419</u>	<u>209,587,855</u>	<u>(9,814,754)</u>	<u>(2,628,682)</u>

At 31 March, had the Euro strengthened by 5% in relation to all currencies, with all other variables held constant, equity of the Group and net loss per the consolidated income statement would have decreased by the amounts shown below. The analysis is performed on the same basis for 2008.

	31 March 2009 Euro	31 March 2008 Euro
British Pound	(76,099)	616,661
United States dollar	(10,448)	207,784
Total	<u>(86,547)</u>	<u>824,445</u>

A 5% weakening in the euro against the above currencies would have resulted in an equal but opposite effect on the above financial statement accounts to the amounts shown above, on the basis that all variables remain constant.

(ii) Interest rate risk

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

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

The Group is primarily exposed to interest rate risk through its cash balances, loans and bank overdrafts. The investment portfolio is exposed to interest rate risk in the respect that changes in interest rates may have an effect on the prepayments and defaults of the underlying loans of the securitisations. These specific risks are discussed separately in notes 15 d) and 15 e). The direct interest rate risk on the investment portfolio is minimal as the assets in the Group's investment portfolio are the 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 the investments have no notional fixed rate element.

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

15. Financial instruments (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The underlying loans may be subject to interest rate exposure; however the majority of the underlying mortgage loans are floating rate. Any element of fixed rate underlying loan exposure is hedged using interest rate swaps. Changes in interest rates can affect the Group's net interest income, which is the difference between the interest income earned on interest-earning investments and the interest expense incurred on interest-bearing liabilities, as such there is some interest rate exposure on the loan facility, this is detailed below.

The interest rate profile at 31 March 2009 was as follows:

	Euro Fixed	Euro Floating	Euro Non-interest bearing	Weighted Average Rate
Investments at fair value through profit or loss	-	108,331,353	-	12.64%
Derivative financial assets - options	-	5,858,210	-	
Derivative financial assets				
– interest rate swap agreements	-	3,512,780	-	4.47%
Cash and cash equivalents	-	18,661,098	-	0.029%
Other assets	-	-	1,663,496	
Loans	-	(29,506,039)	-	5.388%
Other liabilities	-	-	(2,935,807)	
Total	-	106,857,402	(1,272,311)	

The interest rate profile at 31 March 2008 was as follows:

	Euro Fixed	Euro Floating	Euro Non-interest bearing	Weighted Average Rate
Investments at fair value through profit or loss	-	204,790,989	-	12.76%
Derivative financial assets - options	-	2,171,475	-	
Derivative financial assets				
– interest rate swap agreements	-	(5,239)	-	6.18%
– foreign exchange forward contracts (receive)	-	-	80,788,359	-
– foreign exchange forward contracts (pay)	-	-	(79,798,144)	-
Cash and cash equivalents	-	32,934,817	-	0.029%
Other assets	-	-	2,395,741	-
Loans	-	(40,500,000)	-	(5.52%)
Other liabilities	-	-	(5,633,579)	-
Total	-	199,392,042	(2,247,623)	

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).

A decrease of 100 basis points in interest rates as at the balance sheet date would have increased equity of the Group and net loss per the consolidated income statement by Euro 235,585 (2008: Euro 183,803).

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

15. Financial instruments (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

A decrease of 100 basis points would have had an equal but opposite effect. As the only interest rate risk for the Group is the loan facility, we have seen the calculated the impact of a 1% rise in the loan cost.

Maturity profile

The maturity profile at 31 March 2009 was as follows:

	Total Euro	Within one year Euro	One to five years Euro	Over five years Euro
Investments at fair value through profit or loss	108,331,353	13,591,328	60,490,559	34,249,466
Derivative financial assets - options	5,858,210	5,858,210	-	-
Derivative financial assets – interest rate swap agreements	3,512,780	-	3,512,780	-
Cash and cash equivalents	18,661,098	18,661,098	-	-
Other assets	1,663,496	1,663,496	-	-
Loan	(29,506,039)	(5,947,520)	(23,558,519)	-
Other liabilities	(2,935,807)	(2,935,807)	-	-
	<u>105,585,091</u>	<u>30,890,805</u>	<u>40,444,820</u>	<u>34,249,466</u>

The maturity profile at 31 March 2008 was as follows:

	Total Euro	Within one year Floating Euro	One to five years Floating Euro	Over five years Floating Euro
Investments at fair value through profit or loss	204,790,989	13,119,611	116,876,255	74,795,123
Derivative financial assets - options	2,171,475	2,171,475	-	-
Derivative financial assets – interest rate swap agreements	(5,239)	(5,239)	-	-
Derivative financial assets – foreign currency forward contracts	990,215	990,215	-	-
Cash and cash equivalents	32,934,817	32,934,817	-	-
Other assets	2,395,741	2,395,741	-	-
Loan	(40,500,000)	-	(40,500,000)	-
Other liabilities	(5,633,579)	(5,633,579)	-	-
	<u>197,144,419</u>	<u>45,973,041</u>	<u>76,376,255</u>	<u>74,795,123</u>

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

(iii) Discount rate risk

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

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

15. Financial instruments (continued)

(a) Market risk (continued)

(iii) Discount rate risk (continued)

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

The fair value of the Group's investments will fluctuate as a result of change in the discount rate applied to net present value the investments.

The Company currently applies a discount margin of 15% for the European and UK Mortgages and 20% for the SME portfolios. The weighted average discount rate currently applied to the Company's investment portfolio is approximately 17%. A 10% increase in the discount rate of the securities held would have decreased the equity of the Group and net loss per the consolidated income statement by Euro (3,759,543) (2008: Euro 7,367,856); an equal change in the opposite direction would have increased net assets.

The Net Asset Value (NAV) per share of the Company using a discount rate of 15% for the European and UK Mortgages and 20% for the SME portfolios is EUR 3.96. If different discount margin scenarios were applied to the residual assets it would have the following effect on the NAV per of the Company:

- All assets: 15% IRR: NAV/ share: €4.10
- All assets: 20% IRR: NAV/ share: €3.68
- European & UK Mortgages 15%, SME 25%: NAV / share: €3.85
- European & UK Mortgages 20%, SME 25%: NAV / share: €3.56.

(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 when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange-clearing house.

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

	2009	2008
	Euro	Euro
Cash and cash equivalents	18,661,098	32,934,817
Derivative financial assets – unrealised gain on interest rate swap agreements	3,512,780	8,344
Derivative financial assets – unrealised gain on HPI positions	-	491,475
Forward exchange contracts	-	990,215
Total	<u>22,173,878</u>	<u>34,424,851</u>

Amounts in the above table are based on the carrying amount of all accounts except for forward contracts which are presented as the unrealised gains. In connection with the forward currency contracts, the Group is to receive Euro Nil (2008: receive Euro 990,215 upon settlement).

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

15. Financial instruments (continued)

(b) Credit risk (continued)

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 has considered the effect of credit risk of the investment portfolio and its underlying assets, this is detailed below in note 15 d). Otherwise, the Group therefore only has credit exposure on its derivative contracts. At 31 March, the Fund was invested in debt securities with the following credit quality:

Rating	2009	2008
AAA (EIB CP)	-	9,997,939
AA (Derivatives and FX contracts)	-	1,476,451
A (Derivatives and FX contracts)	9,523,469	-

The Group has no credit risk to the SPVs because they are legally obliged to pay all excess cash flows to the holders of the equity. The Group has credit exposure to the underlying collateral in the SPV and is detailed below in Note 15 d), there is no material concentration of credit risk not disclosed in the above table.

Transactions involving derivative financial instruments are usually with counterparties with whom the Group signed master netting agreements. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default. The impact of the master netting agreements is to reduce credit risk from the amounts shown as derivative financial assets on the balance sheet. 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 balance sheet.

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.

Substantially all of the assets of the Group are held by a custodian, Investors Trust & Custodial Services (Ireland) Limited. Bankruptcy or insolvency of the sub-administrator would not cause the Group's rights with respect to securities held by the prime broker to be delayed or limited.

Substantially all of the cash held by the Group is held by the sub-administrator, Investors Fund Services (Ireland) Limited. Bankruptcy or insolvency of Investors Fund Services (Ireland) Limited may cause the Group's rights with respect to the cash held by Investors Fund Services (Ireland) Limited to be delayed or limited. The Group monitors its risk by monitoring the credit quality of Investors Fund Services (Ireland) Limited, as reported by Standard and Poor's or Moody's. If the credit quality or the financial position of Investors Fund Services (Ireland) Limited deteriorates significantly the Investment Manager will move the cash holdings to another bank. Investors Trust and Custodial Services (Ireland) Limited is a State Street Bank and Trust Company. The credit rating of State Street was A1 at the reporting date.

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

15. Financial instruments (continued)

(c) Liquidity risk

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

The following table details the current and long term financial liabilities at 31 March 2009:

	Less than 1 month Euro	1-3 months Euro	3 months to 1 year Euro	Greater than 1 year Euro
<i>Financial liabilities including derivatives settled net</i>				
Loans	-	-	(5,947,520)	(23,558,519)
Distribution payable	(2,131,573)	-	-	-
Interest payable	-	(219,492)	-	-
Due to related parties	-	(156,935)	-	-
Accrued expenses	-	(427,807)	-	-
	<u>(2,131,573)</u>	<u>(804,234)</u>	<u>(5,947,520)</u>	<u>(23,558,519)</u>

The following table details the residual contractual maturities of financial liabilities at 31 March 2008:

	Less than 1 month Euro	1-3 months Euro	3 months to 1 year Euro	Greater than 1 year Euro
<i>Financial liabilities including derivatives settled net</i>				
Loans	-	-	-	(40,500,000)
Distribution payable	(4,645,192)	-	-	-
Derivative financial liabilities – interest rate swap agreements	(13,583)	-	-	-
Interest payable	(189,250)	(420,258)	(1,817,519)	(6,277,276)
Due to related parties	-	(317,441)	-	-
Accrued expenses	-	(670,946)	-	-
<i>Derivative financial liabilities- forward contracts settled gross</i>				
Outflows	-	(79,798,145)	-	-
Inflows	-	80,788,360	-	-
	<u>(4,848,025)</u>	<u>(418,430)</u>	<u>(1,817,519)</u>	<u>(46,777,276)</u>

The previous tables show the contractual, undiscounted cash flows of the Group's financial liabilities.

Notes to the Financial Statements

15. Financial instruments (continued)

(c) Liquidity risk (continued)

The disclosure for derivatives shows a net amount for derivatives that are net settled (e.g. swaps and futures) and a gross outflow and related inflow amount for derivatives that have simultaneous gross settlement (e.g. forward currency contracts). Liquidity and maturity risk is managed by the Investment Manager by regular review of the positions held.

The maturity of the positions is determined using prepayment and default assumptions, based on performance of the assets to date, to forecast what receipts the residuals are likely to receive.

The market for subordinated asset-backed securities, including residual income positions, is illiquid. In addition, investments that the Group purchases in privately negotiated (also called "over the counter" or "OTC") transactions may not be registered under relevant securities laws or otherwise may not be freely tradable, resulting in restrictions on their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. As a result of this illiquidity, the Group's ability to vary its portfolio in a timely fashion and to receive a fair price in response to changes in economic and other conditions may be limited.

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

(d) Prepayment and re-investment risk

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

The Group's investments and the assets that collateralise them may prepay more quickly than expected and have an impact on the value of the Group's portfolio. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond the Group's control and consequently cannot be predicted with certainty. The level and timing of prepayments made by borrowers in respect of the mortgage loans that collateralise certain of the Group's investments may have an adverse impact on the income earned by the Group from those investments. Early prepayments may also give rise to increased re-investment risk with respect to certain investments, as the Group may realise excess cash earlier than expected. If the Group is unable to reinvest such cash in a new investment with an expected rate of return at least equal to that of the investment repaid, this may reduce the Group's net income and, consequently, could have an adverse impact on the Group's ability to pay dividends.

The Company applied a prepayment rate in the range of 10%-52.75%. The specific prepayment rate applied will vary depending on the type of loan, its seasoning and market conditions. A 10% increase in the prepayment rates of the securities held would have decreased the equity of the Group and increased net loss per the consolidated income statement by Euro 1,022,301 (2008: Euro 1,765,931); an equal change in the opposite direction would have increased the equity of the group and decreased the net loss for the year by an equal but opposite amount

Notes to the Financial Statements

15. Financial instruments (continued)

(e) Default and severity rates

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

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

The Company applies a default rate in the range of 0.4%-4.16%. The specific default rate applied will vary depending on the type of loan, its seasoning and market conditions. A 10% increase in the default rates of the securities held would have decreased the equity of the Group and increase net loss per the consolidated income statement by Euro (4,842,211) (2008: Euro 5,957,733); an equal change in the opposite direction would have increased the equity of the group and decrease net loss by an equal but opposite amount.

(f) Residual interest risk

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

The Group does not control the portfolios of assets underlying the ABS in which it invests and relies on the servicers of the ABS to administer and review the portfolios. Particularly in the case of residual income positions, the actions of the servicer, including its ability to identify and report on issues affecting the portfolio on a timely basis, may affect the Group's return on its investments, in some cases significantly. In addition, concentration of a significant number of the Group's investments with one servicer could affect the Group adversely in the event that the servicer fails to fulfil its function effectively or at all. In the event of fraud by any entity in which the Group invests or by other parties involved with the entity, such as servicers or cash managers, the Group may suffer a partial or total loss of the amounts invested in that entity.

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

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

16. Other liabilities

	31 March 2009 Euro	31 March 2008 Euro
Interest payable	219,492	130,221
Due to related parties – Investment Manager (note 20)	156,935	291,551
Accrued expenses	427,807	566,615
	<hr/> 804,234	<hr/> 988,387

Other liabilities principally comprise amounts outstanding in respect of interest payable and ongoing costs. The Directors consider the carrying amount of other liabilities approximates to their fair value.

17. Share capital

The capital structure of the Company consists of cash and cash equivalents, a bank loan and equity attributable to equity holders, comprising issued share capital, capital redemption reserve, share premium account, distributable reserve and retained earnings as disclosed on the balance sheet. The Company does not have any externally imposed capital requirements. At 31 March 2009 the Company had capital of Euro 105,585,091 (2008: Euro 197,144,419).

The investment objective of the Company is to provide stable returns to shareholders in the form of quarterly dividends. It seeks to achieve this by investment in a diversified portfolio of tranches of asset-backed securities.

Where appropriate, the Company may utilise leverage for the purpose of financing its portfolio and enhancing returns to Shareholders. The Company intends to reduce exposure to interest rate and currency fluctuations through the use of currency and interest rate hedging arrangements for the purposes of efficient portfolio management.

The Company aims to deliver its objective by investing available cash and using leverage (in the form of loan financing) whilst maintaining sufficient liquidity to meet on-going expenses and dividend payments.

The risks are managed by the Company's investment Manager as described in note 15.

	31 March 2009 Number of Ordinary Shares	31 March 2009 Euro	31 March 2008 Number of Ordinary Shares	31 March 2008 Euro
Ordinary shares of no par value each	Unlimited	-	Unlimited	-
Issued and fully paid				
	Number of Ordinary Shares	Euro	Number of Ordinary Shares	Euro
Balance at start of year	30,706,048	-	40,620,756	-
Ordinary shares bought back during the year	(4,061,391)	-	(9,914,708)	-
Balance at end of year	<hr/> 26,644,657	<hr/> -	<hr/> 30,706,048	<hr/> -

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

17. Share capital (continued)

Authorised share capital

Upon incorporation 2 Ordinary Shares of no par value were issued. On 13 December 2005 the Group issued 22,500,000 Ordinary Shares for subscription in its Initial Public Offering at an Offer Price of Euro 10 per share. In addition, the Group simultaneously issued 17,900,754 Ordinary Shares to Cheyne ABS Opportunities Fund LP (along with transferring the two Ordinary Shares issued on incorporation) in exchange for a portfolio of investments and 220,000 Ordinary Shares were also issued to the Directors.

During the year to 31 March 2009, the Company purchased and cancelled 4,061,391 (2008: 9,914,708) Ordinary Shares through its buyback programme and previous tender offers at an average price of Euro 4.64 per Ordinary Share.

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 initial Offer Price.

18. Reserves

	31 March 2009		
	Accumulated Reserves	Capital Reserves	Total Reserves
	Euro	Euro	Euro
Balance at start of year	189,471,919	7,672,500	197,144,419
Buy back of Ordinary Shares*	(18,848,906)	-	(18,848,906)
Net loss for the year	(59,864,344)	-	(59,864,344)
Distribution to the ordinary Shareholders of the Company	(12,846,078)	-	(12,846,078)
Balance at end of year	<u>97,912,591</u>	<u>7,672,500</u>	<u>105,585,091</u>

	31 March 2008		
	Accumulated Reserves	Capital Reserves	Total Reserves
	Euro	Euro	Euro
Balance at start of year	286,481,185	7,672,500	294,153,685
Buy back of Ordinary Shares*	(52,997,681)	-	(52,997,681)
Net loss for the year	(22,096,086)	-	(22,096,086)
Distribution to the ordinary Shareholders of the Company	(21,915,499)	-	(21,915,499)
Balance at end of year	<u>189,471,919</u>	<u>7,672,500</u>	<u>197,144,419</u>

* Ordinary Shares bought back have been cancelled.

The Ordinary Shares of the Group have no par value. As such, the proceeds of the Initial Public Offering represent the premium on the issue of the Ordinary Shares. In accordance with the accounting policies of the Group and as allowed by The Companies (Guernsey) Law, 1994, the costs of the Initial Public Offering were expensed against the share premium account.

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

18. Reserves (continued)

The Group passed a special resolution cancelling the amount standing to the credit of its share premium account immediately following admission to the London Stock Exchange. In accordance with The Companies (Guernsey) Law, 1994 (as amended) (the "Companies Law"), the Directors applied to the Royal Court in Guernsey for an order confirming such cancellation of the share premium account following admission. The Other reserve created on cancellation is available as distributable profits to be used for all purposes permitted by the Companies Law, including the buy back of Ordinary Shares and the payment of dividends. As discussed in note 17, the Company bought back 4,061,391 Ordinary Shares of no par value at an average price of Euro 4.64 per Ordinary Share. Under Guernsey law a capital redemption reserve is created for the redemption of these Ordinary Shares. As the nominal value of these Ordinary Shares is Euro Nil, the amount transferred to this reserve is Euro Nil.

Following the introduction of the Companies (Guernsey) Law, 2008, the Group is no longer required to maintain separate classes of reserves. As such, the previously reported classes of reserves have been amalgamated into a single class on the balance sheet.

19. Notes to cash flow statement

	Year ended 31 March 2009 Euro	Year ended 31 March 2008 Euro
Net loss	(59,864,344)	(22,096,086)
Adjustments for:		
Net realised losses on sale of asset backed securities	60,706,822	24,994,142
Net realised losses on total return swaps	-	36,058,842
Realised loss on options	840,000	-
Unrealised losses on investments at fair value through profit or Loss	20,204,444	39,802,565
Unrealised gains on options	(2,576,133)	(491,479)
Unrealised (gains)/losses on interest rate swap agreements	(3,518,019)	2,179,637
Unrealised losses on foreign currency bank balances	13,354	34,282
Unrealised losses/(gains) on foreign exchange forward contracts	990,215	(1,490,324)
Unrealised gains on total return swaps	-	(36,453,698)
	<u>16,796,339</u>	<u>42,537,881</u>
Purchases of asset-backed securities	(7,433,191)	(21,118,567)
Purchases of total return swap agreements	-	-
Purchases of options	(1,950,602)	(1,680,000)
Sales proceeds from asset-backed securities	-	49,550,840
Sales proceeds from total return swaps	-	18,095,747
Principal payups	(6,106,944)	-
Principal paydowns	29,088,505	48,626,854
	<u>13,597,768</u>	<u>93,474,874</u>
Decrease in receivables	732,245	36,155,394
Decrease in payables	(184,153)	(2,341,323)
	<u>548,092</u>	<u>33,814,071</u>
Net cash inflow from operating activities	<u>30,942,199</u>	<u>169,826,826</u>

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.

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

20. Material agreements and related party transactions

Investment Manager

The Group and Trebuchet Finance Limited are parties to an Investment Management Agreement with the Investment Manager, dated 8 December 2005, pursuant to which each of the Group and Trebuchet Finance Limited has 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 the Investment Manager a Management Fee and Incentive Fee (see notes 7 and 16). During the year ended 31 March 2009, the Management Fee totalled Euro 2,617,240 (2008: Euro 4,317,481), of which Euro 156,935 (2008: Euro 291,551) was outstanding at the year end, and the Incentive Fee totalled Euro nil (2008: Euro nil).

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 ABS Investments I plc, Cheyne Finance plc, Cheyne High Grade ABS CDO Ltd. and Cheyne CLO Investments I Limited). The Management Fee is calculated and payable monthly in arrears.

Incentive Fee

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

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

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

The Incentive fee for the year was Euro Nil (2008: Euro Nil) of which Euro Nil (2008: Euro Nil) was outstanding at the year end.

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

20. Material agreements and related party transactions (continued)

Administration Fee

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

Investments in other entities managed by the Investment Manager

As at 31 March 2009 the Group held investments with a total value of Euro Nil (2008: Euro 4,479,375) in the following entities, which are managed by the Investment Manager: Cheyne ABS Investments I plc and Cheyne CLO Investments I Limited.

Custodian Fee

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

Investment Manager Options

In recognition of the work performed by the Investment Manager in raising capital for the Group, the Group granted to Cheyne Global Services Limited on 8 December 2005 options representing the right to acquire 2,250,000 Shares, being 10 per cent of the number of Offer Shares (that is, excluding the Shares issued to Cheyne ABS Opportunities Fund LP and the Shares issued to the Directors), at an exercise price per share equal to the Offer Price (Euro 10). The Investment Manager Options are fully vested and immediately exercisable on the date of admission to the London Stock Exchange and will remain exercisable until the 10th anniversary of that date. The Group may grant further Investment Manager Options in connection with any future offering of Shares. Such options, if any, will represent the right to acquire Shares equal to not more than 10 per cent of the number of Shares being offered in respect of that future offering and will have an exercise price equal to the offer price for that offering. The aggregate fair value of the options granted at the time of the Initial Public Offering using a Black-Scholes valuation model was Euro 7,672,500 (reflecting a valuation of Euro 3.41 per option). This amount has been treated as a cost of the Initial Public Offering. As at 31 March 2009, these options were out of the money as the share price was below the Offer Price of Euro 10.

Controlling Party

Cheyne ABS Opportunities Fund has a controlling interest in the Company.

21. Significant Events during the year

The Company has both direct and indirect exposure to Lehman Brothers and its subsidiaries. On 15 September 2008, Lehman Brothers International (Europe) Limited entered into administration. There is still uncertainty about what this event will mean for its obligations and contracts with counterparties. The Company has direct exposure to Lehman Brothers International (Europe) Limited via Euro 14m notional of the HPI option, and an Interest Rate Swap. On 3 October 2008, the Company submitted a default notice of Euro 3,084,093 in relation to the HPI hedge. The Company is carrying this claim on its balance sheet at a value of Euro 266,003 which implies a recovery rate of 8.625%, the Interest Rate Swap is also valued at this recovery rate. Lehman Brothers Special Financing Inc provides the fixed to floating swap in the Eurosail 2006-1 securitisation. The Directors expect cash flows for Eurosail 2006-1 to continue to be materially affected and have written the asset value down to zero.

QUEEN'S WALK INVESTMENT LIMITED

Notes to the Financial Statements

21. Significant Events during the year (continued)

During the year ended 31 March 2009, the Company bought back (excluding those purchased via tender offer) 1,061,410 shares at an average price of Euro 3.61.

On 27 November 2008 the Company negotiated amended terms on a reduced facility, involving a flexible two year repayment schedule of the outstanding debt. For more details refer to Note 14.

22. Subsequent Events

On 2 April 2009 the Company paid back a further Euro 5,947,520 of the loan, leaving a loan amount outstanding at 15 Jun 2009 of Euro 23,558,519.

23. Foreign exchange Rates

The following foreign exchange rates relative to the Euro were used as at 31 March 2009:

British pound	0.92629
US Dollar	1.32770

The following foreign exchange rates relative to the Euro were used as at 31 March 2008:

British pound	0.79726
US Dollar	1.58455

24. Approval of the Financial Statements

The financial statements were approved by the Directors on 16 June 2009.

QUEEN'S WALK INVESTMENT LIMITED

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Graham Harrison
John Hawkins
Talmi Morgan
Christopher Spencer

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