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Chantrey Vellacott DFK LLP



CHEVAL FINANCE LIMITED

Financial Statements
30 June 2006

CHEVAL FINANCE LIMITED

Financial statements for the year ended 30 June 2006

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CHEVAL FINANCE LIMITED

Company information

Directors

N C Epstein
A S Margolis
J H Margolis
B S Hersch
A Kay
M Chesler
C Halpern
E L Sher
M Posniak

Secretary

A S Margolis

Registered office

Meridien House
Clarendon Road
Watford
Hertfordshire
WD17 1DS

Registered number

3709012

Auditors

Chantrey Vellacott DFK LLP
Gresham House
53 Clarendon Road
Watford
Herts
WD17 1LR

Bankers

Bank Leumi (UK) Plc
20 Stratford Place
London
W1C 1BG

CHEVAL FINANCE LIMITED

Directors' report for the year ended 30 June 2006

The directors present their report and the financial statements of the company for the year ended 30 June 2006.

Review of the business

The company's principal activity during the year was the granting of short term loans secured by legal charges over land and buildings.

Turnover has decreased to £1,420,842 from £1,467,809 in 2005. Net profit after taxation decreased to £81,813 from £352,285. Turnover decreased because the average loan book outstanding during the year was less than in the year ended June 2005. Gross profit, however, is higher because of increased efficiency in utilizing the funding available. This is illustrated by the fact that the gross profit percentage has increased by 34% to 43% from 32% in 2005. It should also be pointed out that this is the first year that management charges are paid to the parent company. £452,448 was paid in management charges during the year, hence resulting in a decrease of profit after taxation.

The directors believe that the loan book will show significant growth in 2006, leading to higher turnover and profits.

The company is authorized with the Financial Services Authority, with regard to regulated mortgage business.

Results and dividends

The results for the year ended 30 June 2006 are shown in the profit and loss account on page 6. The profit for the year after taxation was £81,813.

An interim dividend of £315,000 was paid during the year. The directors do not recommend payment of a final dividend. It is not the intention of the company to declare any dividends in the forthcoming year.

Directors

The directors who served during the year were:

N C Epstein

A S Margolis

J H Margolis

P Rumbold

(Resigned 17 August 2006)

B S Hersch

A Kay

M Chesler

C Halpern

(Appointed 1 June 2006)

E L Sher

(Appointed 1 June 2006)

M Posniak was appointed as a director of the company on 18th October 2006.

CHEVAL FINANCE LIMITED

Directors' report for the year ended 30 June 2006 (continued)

Directors' interests in shares

The directors' have no interests in the shares of the company.

The directors' interests in the shares of the parent company are shown in that company's financial statements.

Creditor payment policy

It is the company's policy to settle its invoices within 30 days of receipt. At 30 June 2006 there were no trade creditors as defined by the Companies Act and therefore no calculation of the creditor payment period is necessary.

Auditors

A resolution to reappoint Chantrey Vellacott DFK LLP as auditors of the company will be proposed at the Annual General Meeting.

Chantrey Vellacott DFK LLP

CHEVAL FINANCE LIMITED

Directors' report for the year ended 30 June 2006 (continued)

Directors' responsibilities

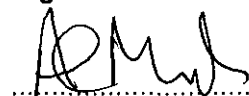
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each Director has taken all steps that they ought to have taken as directors in order to make themselves aware of any information relevant to the audit and to ensure that the auditors are aware of all relevant audit information. As far as each director is aware, there is no relevant audit information of which the company's auditors are unaware.

Signed on behalf of the Board



A S MARGOLIS
Director

Approved by the Board on 12.1.07

CHEVAL FINANCE LIMITED

Independent auditors' report to the shareholders of Cheval Finance Limited

We have audited the financial statements of Cheval Finance Limited for the year ended 30 June 2006 which are set out on pages 6 to 14. 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 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Chantrey Vellacott DFK LLP

CHANTREY VELLACOTT DFK LLP

Chartered Accountants
Registered Auditors

WATFORD
12.1.2007

CHEVAL FINANCE LIMITED

Profit and loss account for the year ended 30 June 2006

	Notes	2006 £	As restated 2005 £
Turnover	2	1,420,842	1,467,809
Cost of sales	2	810,418	1,001,807
Gross profit		610,424	466,002
Administrative expenses		584,237	(31,109)
Operating profit		26,187	497,111
Interest receivable and similar income	3	-	6,153
Interest payable and similar charges	4	(37)	-
Profit on ordinary activities before taxation	5	26,150	503,264
Tax on profit on ordinary activities	7	(55,663)	150,979
Profit for the year	12	81,813	352,285

None of the company's activities was acquired or discontinued during the above two financial years.

The company has no recognised gains and losses other than those included in the profits above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profits shown above and their historical cost equivalents.

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

CHEVAL FINANCE LIMITED

Balance sheet at 30 June 2006

	Notes	2006 £	As restated 2005 £
Current assets			
Debtors	9	10,634,852	8,460,196
Cash at bank and in hand		-	287,965
		<u>10,634,852</u>	<u>8,748,161</u>
Creditors: amounts falling due within one year	10	(10,648,611)	(8,528,733)
Total assets less current liabilities		<u>(13,759)</u>	<u>219,428</u>
Capital and reserves			
Called up share capital	11	100	100
Profit and loss account	12	(13,859)	219,328
Shareholders' funds	13	<u>(13,759)</u>	<u>219,428</u>

Approved by the Board on 12/11/07 and signed on its behalf.



E L SHER - Director

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

CHEVAL FINANCE LIMITED

Cash flow statement for the year 30 June 2006

	Notes	2006 £	2005 £
Net cash (outflow)/inflow from operating activities	14a	(725,324)	1,048,474
Returns on investments and servicing of finance			
Interest received		-	6,153
Interest paid		(37)	-
Net cash (outflow)/inflow from returns on investments and servicing of finance		(37)	6,153
Taxation		(123,912)	(58,764)
Equity dividends paid		(315,000)	(300,000)
Net cash (outflow)/inflow before management of liquid resources and financing		(1,164,273)	695,863
Financing			
Other new short term loans		876,308	-
Repayment of other short term loans		-	(480,018)
Net cash inflow/(outflow) from financing		876,308	(480,018)
(Decrease)/increase in cash in the year	14b,c	(287,965)	215,845

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

CHEVAL FINANCE LIMITED

Notes to the financial statements for the year ended 30 June 2006

1 Accounting policies

a) Basis of accounting

The financial statements are prepared on the historical cost basis of accounting and in accordance with applicable accounting standards.

2 Turnover and cost of sales

Turnover represents interest received and receivable after making due allowance for irrecoverable interest. Turnover is attributable to the one continuing activity described in the directors' report and wholly arises in the United Kingdom.

Cost of sales represents interest paid and payable on funders loans together with direct costs.

3 Interest receivable and similar income	2006 £	2005 £
Bank interest	-	6,153
	<u> </u>	<u> </u>
4 Interest payable and similar charges	2006 £	2005 £
Parent company interest	463,656	621,004
Bank loan interest on loans repayable in less than 5 years	280,122	309,116
Bank overdraft interest	37	-
	<u> </u>	<u> </u>
	743,815	930,120
Included in cost of sales	(743,778)	(930,120)
	<u> </u>	<u> </u>
	37	-
	<u> </u>	<u> </u>
5 Profit on ordinary activities before taxation	2006 £	2005 £
This is stated after charging:		
Auditors' remuneration:		
In respect of audit services	5,450	7,138
Exceptional item - bad debt provision/(receipt)	114,930	(48,300)
	<u> </u>	<u> </u>

6 Employee information

There were no employees during the year apart from the directors.

CHEVAL FINANCE LIMITED

Notes to the financial statements for the year ended 30 June 2006 (continued)

7	Taxation	2006	2005
		£	£
	Domestic current year tax		
	U.K. corporation tax	7,845	150,979
	Adjustment for prior years	(63,508)	-
	Current tax charge	(55,663)	150,979
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	26,150	503,264
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2005- 30.00%)	7,845	150,979
	Effects of:		
	Adjustments to previous periods	(63,508)	-
	Current tax charge	(55,663)	150,979
8	Dividends	2006	2005
		£	£
	On equity shares:		
	Interim of £3,150.00 (2005- £3,000.00) per ordinary share paid	315,000	300,000
9	Debtors	2006	2005
		£	£
	Due from borrowers	8,932,619	8,299,460
	Other debtors	1,600,362	82,500
	Prepayments and accrued income	101,871	78,236
		10,634,852	8,460,196

The amount due from borrowers is secured by legal charges held over land and buildings.

Included within other debtors is a net balance of £770,096. This figure comprises £885,026 transferred from due from borrowers and a provision of £114,930, which has been treated as an exceptional item within administrative expenses in the current year. The directors' consider the net balance to be recoverable.

CHEVAL FINANCE LIMITED

Notes to the financial statements for the year ended 30 June 2006 (continued)

10 Creditors: amounts falling due within one year	2006 £	2005 £
Bank loan	5,696,690	4,820,382
Amounts owed to parent company	4,886,790	3,455,250
Corporation tax	7,846	187,421
Other creditors	-	11,998
Accruals and deferred income	57,285	53,682
	<u>10,648,611</u>	<u>8,528,733</u>
Debt due in one year or less	<u>5,696,690</u>	<u>4,820,382</u>

The loan from the parent company is repayable on demand.

Bank Leumi (UK) plc holds a fixed and floating charge over all property and assets of the company. It is repayable on demand and interest is charged at 2% above Bank Leumi (UK) plc's base rate. The bank loan is partly guaranteed by both the parent company and by another group company, HS Real Company LLC.

11 Called up share capital	2006 £	2005 £
Authorised		
Equity shares:		
50,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Allotted, called up and fully paid		
Equity shares:		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

CHEVAL FINANCE LIMITED

Notes to the financial statements for the year ended 30 June 2006 (continued)

12 Reserves	Profit and loss account £
At 1 July 2005, as previously reported	4,328
Prior year adjustment	215,000
As restated	<u>219,328</u>
Profit for the year	81,813
Dividends paid	(315,000)
At 30 June 2006	<u>(13,859)</u>

Following the introduction of FRS21, 'Events after the Balance Sheet Date', dividends included in the previous years' financial statements have been adjusted to remove proposed dividends and to include those declared and paid in the year.

13 Reconciliation of movement on shareholders' funds	2006 £	2005 £
Profit for the financial year	81,813	352,285
Dividends	(315,000)	(300,000)
Net (depletion in)/addition to shareholders' funds	<u>(233,187)</u>	<u>52,285</u>
Opening shareholders' funds as restated for prior year adjustment	219,428	167,143
Closing shareholders' funds	<u>(13,759)</u>	<u>219,428</u>

Shareholders' funds are fully attributable to equity interests.

Opening shareholders' funds were originally £4,428 before restating for prior year adjustments of £215,000.

CHEVAL FINANCE LIMITED

Notes to the financial statements for the year ended 30 June 2006 (continued)

14 Notes to the cash flow statement

a)	Reconciliation of operating profit to net cash (outflow)/inflow from operating activities		2006	2005
			£	£
	Operating profit		26,187	497,111
	(Increase)/decrease in debtors		(2,174,656)	1,338,481
	Increase/(decrease) in creditors within one year		1,423,145	(787,118)
	Net cash (outflow)/inflow from operating activities		(725,324)	1,048,474

b)	Analysis of changes in net debt	1 July 2005	Cash flow	30 June 2006
		£	£	£
	Net cash:			
	Cash at bank and in hand	287,965	(287,965)	-
	Debt:			
	Debt falling due within one year	(4,820,382)	(876,308)	(5,696,690)
	Net debt	(4,532,417)	(1,164,273)	(5,696,690)

c)	Reconciliation of net cash flow to movement in net debt		2006	2005
			£	£
	(Decrease)/increase in cash in the year		(287,965)	215,845
	Cash (inflow)/outflow from (increase)/decrease in debt		(876,308)	480,018
	Change in net debt resulting from cash flows		(1,164,273)	695,863
	Opening net debt		(4,532,417)	(5,228,280)
	Closing net debt		(5,696,690)	(4,532,417)

CHEVAL FINANCE LIMITED

Notes to the financial statements for the year ended 30 June 2006 (continued)

15 Control

The parent company is Cheval Property Finance plc, which is registered in the United Kingdom.

Following the re-organisation of the group, the directors have reviewed the overhead structure and believe it is appropriate for the parent company to introduce management charges to its subsidiary undertakings, as all administrative expenses are processed through Cheval Property Finance Plc. The method of calculation is based on the amounts due from borrowers, and is pro-rated accordingly. The charge is included within administrative expenses.

The ultimate parent company is Ambition Capital Limited, which is incorporated in Guernsey. There is no ultimate controlling party.

A copy of the group financial statements may be obtained from the parent company at the registered office address on page 1.

16 Related party transactions

The company has taken advantage of the exemptions conferred by Financial Reporting Standard No 8 from the requirement to make disclosures concerning related parties.