

Chantrey Vellacott DFK LLP

CRO COPY

Company Registration Number 3709012

**Cheval Finance Limited**

**Financial statements**

**30 June 2007**



**Cheval Finance Limited**  
**Financial statements**  
**Year ended 30 June 2007**

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# **Cheval Finance Limited**

## **Officers and professional advisers**

### **Board of directors**

M Chesler  
C Halpern  
B S Hersch  
A Kay  
A S Margolis  
M Posniak  
E L Sher

### **Company secretary**

A S Margolis

### **Registered office**

Mendien House  
Clarendon Road  
Watford  
Hertfordshire  
WD17 1DS

### **Auditor**

Chantrey Vellacott DFK LLP  
Chartered Accountants  
Registered Auditor  
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****Year ended 30 June 2007**

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The directors have pleasure in presenting their report and the audited financial statements of the company for the year ended 30 June 2007

**Principal activities and business review**

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 increased to £2,461,680 from £1,420,842 in 2006. Net profit after taxation increased to £428,746 from £81,813. Turnover increased because the average loan book outstanding during the year was more than in the year ended June 2006. Gross profit, however, is higher because of increased efficiency in utilising the funding available. This is illustrated by the gross profit percentage which has improved by 15% to 58% from 43% in 2006. Management charges amounting to £443,163 were paid during the year to the parent company based on the relative value of the loan book.

The directors believe that the loan book will show significant growth in 2008 as an increased level of bank funding becomes available. This will in turn lead to higher turnover and profits.

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

**Results and dividends**

The results for the year ended 30 June 2007 are shown in the profit and loss account on page 6. The profit for the year after taxation was £428,746. No dividends were declared during the year. It is not the intention of the company to declare any dividends in the forthcoming year.

**Directors**

The directors who served the company during the year were as follows:

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

M Posniak was appointed as a director on 18 October 2006.

N C Epstein retired as a director on 7 December 2006.

J H Margolis retired as a director on 7 December 2006.

P Rumbold retired as a director on 17 August 2006.

**Cheval Finance Limited****Directors' report (continued)****Year ended 30 June 2007**

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**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 these financial statements, the directors are required to

- select suitable accounting policies and then 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.

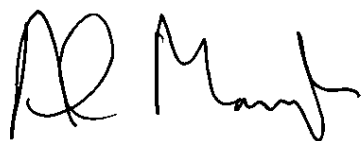
In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

**Auditor**

A resolution to re-appoint Chantrey Vellacott DFK LLP as auditor for the ensuing year will be proposed at the Annual General Meeting in accordance with section 385 of the Companies Act 1985.

Signed by order of the directors



A S Margolis  
Company Secretary

Approved by the directors on 21.12.07

**Cheval Finance Limited****Independent auditor's report to the shareholder of  
Cheval Finance Limited****Year ended 30 June 2007**

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We have audited the financial statements of Cheval Finance Limited for the year ended 30 June 2007 which comprise the profit and loss account, balance sheet, cash flow statement and the related notes. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's member, 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 member 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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 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 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.

**Cheval Finance Limited**

**Independent auditor's report to the shareholder of  
Cheval Finance Limited (continued)**

**Year ended 30 June 2007**

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**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 2007 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 Auditor**

**Watford**

*21.12.2007*

Chantrey Vellacott DFK LLP

**Cheval Finance Limited**  
**Profit and loss account**  
**Year ended 30 June 2007**

|   | Note | 2007<br>£        | 2006<br>£      |
|---|------|------------------|----------------|
| Turnover                                      | 2    | 2,461,680        | 1,420,842      |
| Cost of sales                                 |      | <u>1,021,558</u> | <u>810,418</u> |
| Gross profit                                  |      | 1,440,122        | 610,424        |
| Administrative expenses                       |      | <u>806,942</u>   | <u>584,237</u> |
| Operating profit                              | 3    | 633,180          | 26,187         |
| Interest receivable                           |      | 1,104            | —              |
| Interest payable and similar charges          | 5    | —                | (37)           |
| Profit on ordinary activities before taxation |      | <u>634,284</u>   | <u>26,150</u>  |
| Tax on profit on ordinary activities          | 6    | 205,538          | (55,663)       |
| Profit for the financial year                 |      | <u>428,746</u>   | <u>81,813</u>  |

All of the activities of the company are classed as continuing

The company has no recognised gains or losses other than the results for the year as set out above

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



## Cheval Finance Limited

## Balance sheet

As at 30 June 2007

|  | Note | 2007<br>£             | 2006<br>£              |
|--|------|-----------------------|------------------------|
| <b>Current assets</b>                                |      |                       |                        |
| Debtors  | 8    | 12,828,446            | 10,634,852             |
| Cash at bank   |      | 3,331                 | -                      |
|  |      | <u>12,831,777</u>     | <u>10,634,852</u>      |
| <b>Creditors amounts falling due within one year</b> | 9    | <u>12,416,790</u>     | <u>10,648,611</u>      |
| <b>Net current assets/(liabilities)</b>              |      | <b>414,987</b>        | <b>(13,759)</b>        |
| <b>Total assets less current liabilities</b>         |      | <b><u>414,987</u></b> | <b><u>(13,759)</u></b> |
| <b>Capital and reserves</b>                          |      |                       |                        |
| Called up equity share capital                       | 11   | 100                   | 100                    |
| Profit and loss account                              | 12   | 414,887               | (13,859)               |
| <b>Shareholder's funds/(deficit)</b>                 | 13   | <b><u>414,987</u></b> | <b><u>(13,759)</u></b> |

These financial statements were approved by the Board and authorised for issue on 21/12/07 and were signed on its behalf by

E L SHER  
Director



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

**Cheval Finance Limited****Cash flow statement****Year ended 30 June 2007**


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|   | <b>Note</b>  | <b>2007<br/>£</b>  | <b>2006<br/>£</b>  |
|---|--------------|--------------------|--------------------|
| <b>Net cash outflow from operating activities</b>                                     | <b>14(a)</b> | <b>(2,555,169)</b> | <b>(725,324)</b>   |
| <b>Returns on investments and servicing of finance</b>                                |              |                    |                    |
| Interest received   |              | <b>1,104</b>       | <b>-</b>           |
| Interest paid   |              | <b>-</b>           | <b>(37)</b>        |
| <b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b> |              | <b>1,104</b>       | <b>(37)</b>        |
| <b>Taxation</b>   |              | <b>(151,171)</b>   | <b>(123,912)</b>   |
| <b>Equity dividends paid</b>  |              | <b>-</b>           | <b>(315,000)</b>   |
| <b>Cash outflow before financing</b>  |              | <b>(2,705,236)</b> | <b>(1,164,273)</b> |
| <b>Financing</b>  |              |                    |                    |
| Increase in bank loans  |              | <b>2,708,567</b>   | <b>876,308</b>     |
| <b>Net cash inflow from financing</b>   |              | <b>2,708,567</b>   | <b>876,308</b>     |
| <b>Increase/(decrease) in cash</b>  | <b>14(b)</b> | <b>3,331</b>       | <b>(287,965)</b>   |

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

**Cheval Finance Limited****Notes to the financial statements****Year ended 30 June 2007****1 Accounting policies****Basis of accounting**

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

**Turnover and cost of sales**

Turnover represents interest received and receivable from loans advanced and other fees associated with loans advanced

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

**Deferred taxation**

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes

**Financial instruments**

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities

**2 Turnover**

The turnover and profit before tax are attributable to the one principal activity of the company

An analysis of turnover is given below

|                | 2007<br>£        | 2006<br>£        |
|----------------|------------------|------------------|
| United Kingdom | <u>2,461,680</u> | <u>1,420,842</u> |

**3 Operating profit**

Operating profit is stated after charging

|   | 2007<br>£ | 2006<br>£ |
|---|-----------|-----------|
| Exceptional items - specific bad debt provision | 299,906   | -         |

Details of the specific bad debt provision is disclosed in note 8

|                        |              |              |
|------------------------|--------------|--------------|
| Auditor's remuneration | <u>4,906</u> | <u>5,450</u> |
|------------------------|--------------|--------------|

|  | 2007<br>£    | 2006<br>£    |
|--|--------------|--------------|
| Auditor's remuneration - audit of the financial statements | <u>4,906</u> | <u>5,450</u> |

**Cheval Finance Limited****Notes to the financial statements****Year ended 30 June 2007****4 Particulars of employees**

The average number of staff, including executive directors, employed by the company during the financial year can be analysed as follows

|                            | 2007<br>No | 2006<br>No |
|----------------------------|------------|------------|
| Number of management staff | <u>8</u>   | <u>7</u>   |

No salaries or wages have been paid to employees, including the directors, during the year

**5 Interest payable and similar charges**

|  | 2007<br>£        | 2006<br>£        |
|--|------------------|------------------|
| On loans from parent company                                 | 534,457          | 463,656          |
| On bank loans and overdrafts wholly repayable within 5 years | 417,518          | 280,122          |
| Bank overdraft interest                                      | <u>-</u>         | <u>37</u>        |
|  | 951,975          | 743,815          |
| Included in cost of sales                                    | <u>(951,975)</u> | <u>(743,778)</u> |
|  | <u>-</u>         | <u>37</u>        |

**6 Taxation on ordinary activities****(a) Analysis of charge in the year**

|  | 2007<br>£      | 2006<br>£       |
|--|----------------|-----------------|
| Current tax  |                |                 |
| UK Corporation tax based on the results for the year at 30% (2006 - 30%) | 205,538        | 7,845           |
| Over/under provision in prior year                                       | <u>-</u>       | <u>(63,508)</u> |
| Total current tax  | <u>205,538</u> | <u>(55,663)</u> |

**Cheval Finance Limited****Notes to the financial statements****Year ended 30 June 2007****6 Taxation on ordinary activities (continued)****(b) Factors affecting current tax charge**

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2006 - 30%)

|  | 2007<br>£      | 2006<br>£       |
|--|----------------|-----------------|
| Profit on ordinary activities before taxation            | <u>634,284</u> | <u>26,150</u>   |
| Profit on ordinary activities multiplied by rate of tax  | 190,285        | 7,845           |
| Adjustments to tax charge in respect of previous periods | -              | (63,508)        |
| General bad debt provision multiplied by rate of tax     | <u>15,253</u>  | -               |
| Total current tax (note 6(a))                            | <u>205,538</u> | <u>(55,663)</u> |

**7 Dividends****Dividends on equity shares**

|                                     | 2007<br>£ | 2006<br>£      |
|-------------------------------------|-----------|----------------|
| Paid during the year                |           |                |
| Equity dividends on ordinary shares | <u>-</u>  | <u>315,000</u> |

**8 Debtors**

|                                | 2007<br>£         | 2006<br>£         |
|--------------------------------|-------------------|-------------------|
| Due from borrowers             | 12,646,946        | 8,932,619         |
| Other debtors                  | 74,203            | 1,600,362         |
| Prepayments and accrued income | <u>107,297</u>    | <u>101,871</u>    |
|                                | <u>12,828,446</u> | <u>10,634,852</u> |

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

Included within due from borrowers is a specific provision of £299,906 relating to expected losses on three loans. These loans provided to the borrowers, were secured on the properties, regarding which the company had received professional valuations. During the year legal proceedings were commenced and the properties have been repossessed by the company. One property has subsequently been sold and the other two are on the market. The specific provision above, has been treated as an exceptional item within administrative expenses, as disclosed in note 3.

**Cheval Finance Limited****Notes to the financial statements****Year ended 30 June 2007****9 Creditors amounts falling due within one year**

|                                    | 2007<br>£         | 2006<br>£         |
|------------------------------------|-------------------|-------------------|
| Bank loans and overdrafts          | 8,405,257         | 5,696,690         |
| Amounts owed to group undertakings | 3,753,600         | 4,886,790         |
| Corporation tax                    | 62,213            | 7,846             |
| Accruals and deferred income       | 195,720           | 57,285            |
|                                    | <u>12,416,790</u> | <u>10,648,611</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.

The following liabilities disclosed under creditors falling due within one year are secured by the company

|                           | 2007<br>£        | 2006<br>£        |
|---------------------------|------------------|------------------|
| Bank loans and overdrafts | <u>8,405,257</u> | <u>5,696,690</u> |

**10 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.

**11 Share capital****Authorised share capital**

|                                   | 2007<br>£     | 2006<br>£     |
|-----------------------------------|---------------|---------------|
| 50,000 Ordinary shares of £1 each | <u>50,000</u> | <u>50,000</u> |

**Allotted, called up and fully paid**

|                            | No         | 2007<br>£  | No         | 2006<br>£  |
|----------------------------|------------|------------|------------|------------|
| Ordinary shares of £1 each | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> |
| <b>Equity shares</b>       |            |            |            |            |
| Ordinary shares of £1 each | <u>100</u> | <u>100</u> | <u>100</u> | <u>100</u> |

**Cheval Finance Limited****Notes to the financial statements****Year ended 30 June 2007****12 Profit and loss account**

|                               | 2007<br>£      | 2006<br>£       |
|-------------------------------|----------------|-----------------|
| Balance brought forward       | (13,859)       | 219,328         |
| Profit for the financial year | 428,746        | 81,813          |
| Equity dividends paid         | -              | (315,000)       |
| Balance carried forward       | <u>414,887</u> | <u>(13,859)</u> |

**13 Reconciliation of movements in shareholder's funds**

|  | 2007<br>£      | 2006<br>£       |
|--|----------------|-----------------|
| Profit for the financial year                                | 428,746        | 81,813          |
| Equity dividends paid  | -              | (315,000)       |
| Net addition to/(reduction of) shareholder's (deficit)/funds | 428,746        | (233,187)       |
| Opening shareholder's (deficit)/funds                        | (13,759)       | 219,428         |
| Closing shareholder's funds/(deficit)                        | <u>414,987</u> | <u>(13,759)</u> |

**14 Notes to the cash flow statement****(a) Reconciliation of operating profit to net cash inflow from operating activities**

|  | 2007<br>£          | 2006<br>£        |
|--|--------------------|------------------|
| Operating profit                           | 633,180            | 26,187           |
| Increase in debtors                        | (2,193,694)        | (2,174,656)      |
| (Decrease)/increase in creditors           | (994,755)          | 1,423,145        |
| Net cash outflow from operating activities | <u>(2,555,169)</u> | <u>(725,324)</u> |

**(b) Reconciliation of net cash flow to movement in net debt**

|   | 2007<br>£          | 2006<br>£          |
|---|--------------------|--------------------|
| Increase/(decrease) in cash in the period | 3,331              | (287,965)          |
| Net cash (inflow) from bank loans         | (2,708,567)        | (876,308)          |
|   | <u>(2,705,236)</u> | <u>(1,164,273)</u> |
| Change in net debt                        | (2,705,236)        | (1,164,273)        |
| Net debt at 1 July 2006                   | (5,696,690)        | (4,532,417)        |
| Net debt at 30 June 2007                  | <u>(8,401,926)</u> | <u>(5,696,690)</u> |

## Cheval Finance Limited

### Notes to the financial statements

Year ended 30 June 2007

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#### 14 Notes to the cash flow statement (continued)

##### (c) Analysis of changes in net debt

|                          | At<br>1 Jul 2006<br>£ | Cash flows<br>£    | At<br>30 Jun 2007<br>£ |
|--------------------------|-----------------------|--------------------|------------------------|
| Net cash                 |                       |                    |                        |
| Cash in hand and at bank | <u>-</u>              | <u>3,331</u>       | <u>3,331</u>           |
| Debt                     |                       |                    |                        |
| Debt due within 1 year   | <u>(5,696,690)</u>    | <u>(2,708,567)</u> | <u>(8,405,257)</u>     |
| Net debt                 | <u>(5,696,690)</u>    | <u>(2,705,236)</u> | <u>(8,401,926)</u>     |

#### 15 Ultimate parent company

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

The directors' believe it is appropriate for the parent company to make 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.

Group financial statements are prepared for Credit Investment Limited, which is the parent company of Cheval Property Finance Plc. A copy of the group financial statements may be obtained from the registered office at NJHCO 8th Floor, Tolworth Tower, Ewell Road, Surbiton, Surrey, KT6 7EL.