

Company Registration Number 3709012

Chantrey Vellacott DFKLLP

**Cheval Finance Limited**

**Financial statements**

**30 June 2008**

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**Cheval Finance Limited**  
**Financial statements**  
**Year ended 30 June 2008**

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# **Cheval Finance Limited**

## **Officers and professional advisers**

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### **The board of directors**

C Halpern  
B S Hersch  
A Kay  
A S Margolis  
E L Sher

### **Company secretary**

A S Margolis

### **Registered office**

Meridien House  
Clarendon Road  
Watford  
Hertfordshire  
WD17 1DS

### **Auditor**

Chantrey Vellacott DFK LLP  
Chartered Accountants  
Registered Auditor  
2nd Floor  
34 Clarendon Road  
Watford  
Herts  
WD17 1LR

### **Bankers**

Landsbanki Commercial Finance  
Beaufort House  
15 St Botolph Street  
London  
EC3A 7QR

Chantrey Vellacott DFK LLP

# Cheval Finance Limited

## Directors' report

Year ended 30 June 2008

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The directors present their report and the audited financial statements of the company for the year ended 30 June 2008.

### 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 decreased from £2,461,680 to £2,365,545 in 2008. Net profit after taxation decreased from £428,746 to a loss of £555,282. The decrease in turnover is because of a lower average loan book outstanding during the year.

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

### Credit crunch

The credit crunch has been well documented and we do not wish to dwell on it here, suffice to say that the credit crunch has had a material impact on our business. This impact has been felt in four key areas as follows:

- (i) A sharp decline in the value of collateral held as security for loans
- (ii) A decline in the quantity and quality of new business applications
- (iii) Increases in the groups cost of LIBOR linked facilities
- (iv) A rise in the number of borrowers experiencing financial distress, which has led to an increase in the size of the groups non performing loan book

The past 18 months (1 July 2007 to the date of this report) has seen an astonishing loss of value in the financial, insurance and property sectors of the UK and the USA. Institutions that were the backbone of the financial services sector have either been consolidated, nationalised or have fallen into bankruptcy. It is hard to believe that the equity in institutions such as Bear Sterns, Lehman Brothers, AIG, Bank of America, Northern Rock, UBS, Anglo Irish, Bank of Ireland, Royal Bank of Scotland, Halifax Bank of Scotland, Merrill Lynch and Citi Bank is either worthless or has declined by up to 90%.

The meltdown in the financial and property sectors has had a wide spread impact on the real economy. Cheval has been adversely affected as the availability of liquidity to allow borrowers to remortgage their bridging loans has dried up dramatically. In April 2007, 80,000 mortgage products existed in the UK - by July 2008 this had decreased to 14,175 with further reductions continuing or criteria tightening. These events have resulted in significant declines in property prices across the board and have prevented refinance generally. In short, our collateral value has declined and the average loan duration has increased substantially. Whilst we are deeply disappointed with this set of financial results, it is important to contextualize Cheval's performance with that of the wider sector and adverse economic landscape.

### Steps taken by management

With the onset of the credit crunch, management have been focused on reducing debt, returning to cash and minimising overheads.

- Our loan book net of provisions has been reduced to £10,324,782 from £12,646,946 (June 2007)
- Cash on hand for the comparable period increased from £3,331 to £8,289
- Bank loans and overdrafts have been reduced from £8,405,257 on 30 June 2007 to £6,125,292 as at 30 June 2008

## Cheval Finance Limited

### Directors' report (continued)

Year ended 30 June 2008

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#### Other steps taken by management on a group basis

- Heavy investment in our credit collections department
- Management have engaged with all the group's secured creditors and is pleased to say that it has received their full support. Most importantly, our short term mezzanine provider has agreed to an interest and capital redemption moratorium for two years. From a cash flow perspective, this will have a benefit of at least £3.2m over the next two years
- We have attempted to maximise cash resources by re-negotiating lease terms, capitalising or deferring interest on loan accounts and generally undertaking prudent cash management
- With the onset of the credit crisis, management tightened underwriting criteria and have continued to refine products on a regular basis
- Cheval led the market with lower loan limits and loan to values with the launch of a new product range on 24 July 2008
- We have instituted an Approval In Principle concept that enables the business to function with a lower underwriting head count without compromising the quality of our underwriting
- We implemented a review of all non core business expenditure employing a specialist firm, Expense Reduction Analysts, to advise us on where savings could be made
- We cut all marketing and PR spend and have been vigilant in reducing other costs in this area
- Where management has seen a weakness in the controls and procedures of the business, it has acted quickly and thoroughly to remedy the situation.

#### Bad debts

In addition to the general bad debt provision, it is also group policy to provide for those loans where management is of the opinion that there has been a permanent impairment in the value of the security such that the probability of loss to the group is likely in the short term. In accordance with that policy, management analysed the loan book and commissioned new valuations where appropriate. Taking into account further diminutions in value post year end, it became necessary to increase the provision to £1,504,358.

#### Going concern

These financial statements have been prepared on a going concern basis and assume that the company continues to receive the support of the Cheval group and Landsbanki Commercial Finance. If this support is withdrawn, then there is a high probability that the company will be unable to continue as a going concern. As at the date of approval of these financial statements, the directors are of the belief that they have the support of both the Cheval group and Landsbanki Commercial Finance. However, the directors are mindful that in this uncertain economic environment this support could be withdrawn at any time. The directors' view is derived from meetings and conversations held with Landsbanki Commercial Finance which have indicated their continuing support.

Whilst the Balance Sheet of the company showed a net negative equity position of £140,295 as at 30 June 2008, the directors believe that the company with the support of both the Cheval group and Landsbanki Commercial Finance, is solvent and therefore able to continue as a going concern. This opinion is derived from the following:

- (i) A detailed review of the group's cash position has been undertaken for the 12 months commencing 1 February 2009 and the directors believe that the group has sufficient resources to continue trading during this period. Naturally, the cash flow has been based on certain assumptions and if these were to adversely change then the directors would have to revisit their going concern conclusion
- (ii) The group is able to meet its day to day ordinary indebtedness
- (iii) Despite breaches in lenders' covenants, the group has the support of all its lenders at the current time and is continuing to work positively with them to secure mutually acceptable solutions
- (iv) The mezzanine debt in the parent company has been rescheduled from short term to long term - thereby acting as quasi equity

The directors review the cash position of the group on a regular basis and all decisions are made in the best interests of the creditors. The directors ensure that all important strategic decisions affecting the group are discussed with its lenders.

**Cheval Finance Limited****Directors' report (continued)****Year ended 30 June 2008**

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**Strategy going forward**

Over the next year, management's priorities can be summarised as follows:

- (i) Maximise cash
- (ii) Reduce debt
- (iii) Reduce non-performing loan book
- (iv) Contain costs

**Future outlook**

Management believe that the trading environment for our group will get tougher before we see the green shoots of recovery. It is management's opinion that the UK economy will continue to shrink over the next 9 to 12 months with steep increases in unemployment amid wide spread business cut backs and failures.

Whilst the government continues to invest heavily in rescuing the banking sector, these efforts are proving slow to deliver results and we believe that a resumption in more normalised lending activity will not materialise for at least the next 9 to 12 months from the date of signature of these accounts.

Whilst management have attempted to identify impairments in collateral values across its loan book, it is possible that further write downs may be necessary in the event that the property market remains under pressure.

**Results and dividends**

The results for the year ended 30 June 2008 are shown in the profit and loss account on page 8, naturally given the financial performance and position of the group, no dividend will be paid. This will be the policy for the foreseeable future.

We would like to take this opportunity to thank all colleagues, shareholders and business partners for their continued support and advice during an extremely difficult trading period.

**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

M Chesler retired as a director on 20 December 2007.

M Posniak retired as a director on 11 December 2008.

**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;

# Cheval Finance Limited

## Directors' report (continued)

Year ended 30 June 2008

- 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.

Insofar 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.

### Donations

During the year the company made the following contributions:

	2008 £	2007 £
Charitable	<u>322</u>	<u>-</u>

### 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 29.1.09

Chantrey Vellacott DFK LLP

## **Cheval Finance Limited**

### **Independent auditor's report to the shareholder of Cheval Finance Limited**

**Year ended 30 June 2008**

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We have audited the financial statements of Cheval Finance Limited for the year ended 30 June 2008 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 shareholder, 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 shareholder 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 shareholder 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.

Chantrey Vellacott DFK LLP



**Cheval Finance Limited**

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

**Year ended 30 June 2008**

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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 2008 and of its loss 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.

**Emphasis of matter - Going concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The company incurred a net loss of £555,282 during the year ended 30 June 2008 and, at that date, the company's liabilities exceeded its total assets by £140,295. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

*Chantrey Vellacott DFK LLP*

**CHANTREY VELLACOTT DFK LLP**

**Chartered Accountants**

**Registered Auditor**

**Watford**

*29.1.2009*

Chantrey Vellacott DFK LLP

**Cheval Finance Limited****Profit and loss account****Year ended 30 June 2008**

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	Note	2008 £	2007 £
Turnover	2	2,365,545	2,461,680
Cost of sales		1,050,226	1,021,558
Gross profit		1,315,319	1,440,122
Administrative expenses		2,065,045	806,942
Operating (loss)/profit	3	(749,726)	633,180
Attributable to:			
Operating profit before exceptional items		754,632	983,930
Exceptional items	3	(1,504,358)	(350,750)
		(749,726)	633,180
Interest receivable		4,347	1,104
(Loss)/profit on ordinary activities before taxation		(745,379)	634,284
Tax on (loss)/profit on ordinary activities	6	(190,097)	205,538
(Loss)/profit for the financial year		(555,282)	428,746

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 11 to 17 form part of these financial statements.

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# Cheval Finance Limited

## Balance sheet

As at 30 June 2008

	Note	2008 £	2007 £
<b>Current assets</b>			
Debtors	7	10,694,351	12,828,446
Cash at bank		8,289	3,331
		<u>10,702,640</u>	<u>12,831,777</u>
<b>Creditors: amounts falling due within one year</b>	8	<u>10,842,935</u>	<u>12,416,790</u>
<b>Net current (liabilities)/assets</b>		<u>(140,295)</u>	<u>414,987</u>
<b>Total assets less current liabilities</b>		<u>(140,295)</u>	<u>414,987</u>
<b>Capital and reserves</b>			
Called up equity share capital	10	100	100
Profit and loss account	11	(140,395)	414,887
<b>(Deficit)/shareholder's funds</b>	12	<u>(140,295)</u>	<u>414,987</u>

These financial statements were approved by the directors and authorised for issue on 29.1.09, and are signed on their behalf by:

E L SHER  
Director



The notes on pages 11 to 17 form part of these financial statements.

**Cheval Finance Limited****Cash flow statement****Year ended 30 June 2008**

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	Note	2008 £	2007 £
Net cash inflow/(outflow) from operating activities	13(a)	2,144,343	(2,555,169)
Returns on investments and servicing of finance			
Interest received		<u>4,347</u>	<u>1,104</u>
Net cash inflow from returns on investments and servicing of finance		4,347	1,104
Taxation		(62,213)	(151,171)
Cash inflow/(outflow) before financing		<u>2,086,477</u>	<u>(2,705,236)</u>
Financing			
(Repayment of)/increase in bank loans		(2,279,965)	2,708,567
Net inflow from other short-term creditors		<u>198,446</u>	<u>-</u>
Net cash (outflow)/inflow from financing		(2,081,519)	2,708,567
Increase in cash	13(c)	<u>4,958</u>	<u>3,331</u>

Chantrey Vellacott DFK LLP

The notes on pages 11 to 17 form part of these financial statements.

**1. Accounting policies**

**Basis of accounting**

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

**Going concern**

These financial statements have been prepared on a going concern basis and assume that the company continues to receive the support of the Cheval group and Landsbanki Commercial Finance. If this support is withdrawn, then there is a high probability that the company will be unable to continue as a going concern. As at the date of approval of these financial statements, the directors are of the belief that they have the support of both the Cheval group and Landsbanki Commercial Finance. However, the directors are mindful that in this uncertain economic environment this support could be withdrawn at any time. The directors' view is derived from meetings and conversations held with Landsbanki Commercial Finance which have indicated their continuing support.

Whilst the Balance Sheet of the company showed a net negative equity position of £140,295 as at 30 June 2008, the directors believe that the company with the support of both the Cheval group and Landsbanki Commercial Finance, is solvent and therefore able to continue as a going concern. This opinion is derived from the following:

- (i) A detailed review of the group's cash position has been undertaken for the 12 months commencing 1 February 2009 and the directors believe that the group has sufficient resources to continue trading during this period. Naturally, the cash flow has been based on certain assumptions and if these were to adversely change then the directors would have to revisit their going concern conclusion
- (ii) The group is able to meet its day to day ordinary indebtedness
- (iii) Despite breaches in lenders' covenants, the group has the support of all its lenders at the current time and is continuing to work positively with them to secure mutually acceptable solutions
- (iv) The mezzanine debt in the parent company has been rescheduled from short term to long term - thereby acting as quasi equity

The directors review the cash position of the group on a regular basis and all decisions are made in the best interests of the creditors. The directors ensure that all important strategic decisions affecting the group are discussed with its lenders.

**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.

**Operating lease agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

**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.

# Cheval Finance Limited

## Notes to the financial statements

Year ended 30 June 2008

### 2. Turnover

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

An analysis of turnover is given below:

	2008 £	2007 £
United Kingdom	<u>2,365,545</u>	<u>2,461,680</u>

### 3. Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	2008 £	2007 £
Operating lease costs:		
Plant and equipment	744	—
Other	9,787	—
Auditor's remuneration	9,900	4,906
Specific bad debt provision	<u>1,504,358</u>	<u>350,750</u>

Details of the specific bad debt provision is disclosed in note 7.

	2008 £	2007 £
Auditor's remuneration - audit of the financial statements	<u>9,900</u>	<u>4,906</u>

# Cheval Finance Limited

## Notes to the financial statements

Year ended 30 June 2008

### 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:

	2008 No	2007 No
Number of management staff	<u>6</u>	<u>8</u>

The aggregate payroll costs of the above were:

	2008 £	2007 £
Wages and salaries	277,051	—
Social security costs	38,285	—
Other pension costs	<u>10,042</u>	<u>—</u>
	<u>325,378</u>	<u>—</u>

Staff costs relate to amounts that have been re-charged by the parent company, Cheval Property Finance Plc. Employee contracts are with the parent company, and hence staff numbers only include the directors.

### 5. Directors' emoluments

The directors' aggregate emoluments in respect of qualifying services were:

	2008 £	2007 £
Emoluments receivable	<u>106,179</u>	<u>—</u>

# Cheval Finance Limited

## Notes to the financial statements

Year ended 30 June 2008

### 6. Taxation on ordinary activities

#### (a) Analysis of charge in the year

	2008 £	2007 £
Current tax:		
UK Corporation tax based on the results for the year at 29.50% (2007 - 30%)	(190,097)	205,538
Total current tax	<u>(190,097)</u>	<u>205,538</u>

#### (b) Factors affecting current tax charge

The tax assessed on the (loss)/profit on ordinary activities for the year is at a higher rate than the standard rate of corporation tax in the UK of 29.50% (2007 - 30%).

	2008 £	2007 £
(Loss)/profit on ordinary activities before taxation	<u>(745,379)</u>	<u>634,284</u>
(Loss)/profit on ordinary activities multiplied by rate of tax	(219,887)	190,285
Expenses not deductible for tax purposes	877	-
General bad debt provision multiplied by rate of tax	32,081	15,253
Effect of change in rate on losses carried back to prior year	<u>(3,168)</u>	<u>-</u>
Total current tax (note 6(a))	<u>(190,097)</u>	<u>205,538</u>

### 7. Debtors

	2008 £	2007 £
Due from borrowers	10,324,782	12,646,946
Corporation tax repayable	190,097	-
Other debtors	-	74,203
Prepayments and accrued income	<u>179,472</u>	<u>107,297</u>
	<u>10,694,351</u>	<u>12,828,446</u>

Debtors are shown net of bad debt provisions of £1,504,358 (2007: £350,750). These provisions have been treated as an exceptional item within administrative expenses as disclosed in note 3 and on the face of the profit and loss account.

The amounts due from borrowers are secured by legal charges held over land and buildings. Loans provided to the borrowers are secured on the properties, regarding which the group and company had received professional valuations. Where the directors believe that the expected losses are as a result of negligent professional valuations received, the directors have either already commenced legal claims against the valuers or will commence such claims against the valuers at the appropriate time.



# Cheval Finance Limited

## Notes to the financial statements

Year ended 30 June 2008

### 8. Creditors: amounts falling due within one year

	2008 £	2007 £
Bank loans	6,125,292	8,405,257
Amounts owed to group undertakings	4,326,294	3,753,600
Corporation tax	-	62,213
Other creditors	198,446	-
Accruals and deferred income	192,903	195,720
	<u>10,842,935</u>	<u>12,416,790</u>

The loan from the parent company is repayable on demand.

A loan from Landsbanki Commercial Finance to the company is secured by sub-mortgages in respect of all eligible mortgage loans in that company as well as a composite guarantee and mortgage debenture with Cheval Property Finance PLC, Cheval Finance Limited and Credit Investment Limited, another group company. The loan facility was for a maximum of £25,000,000 and interest is payable at 2.68% above LIBOR. A non-utilisation fee of 0.25% per annum is also payable on any undrawn balance. The initial facility period is for three years from December 2007 and at the year end the liability under the facility in the company was £6,125,292.

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

	2008 £	2007 £
Bank loans	<u>6,125,292</u>	<u>8,405,257</u>

### 9. 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.

### 10. Share capital

#### Authorised share capital:

	2008 £	2007 £
50,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

#### Allotted, called up and fully paid:

	2008 No	£	2007 No	£
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 2008

### 11. Profit and loss account

	2008 £	2007 £
Balance brought forward	414,887	(13,859)
(Loss)/profit for the financial year	(555,282)	428,746
Balance carried forward	<u>(140,395)</u>	<u>414,887</u>

### 12. Reconciliation of movements in shareholder's funds

	2008 £	2007 £
(Loss)/Profit for the financial year	(555,282)	428,746
Opening shareholder's funds/(deficit)	414,987	(13,759)
Closing shareholder's (deficit)/funds	<u>(140,295)</u>	<u>414,987</u>

### 13. Notes to the statement of cash flows

#### (a) Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities

	2008 £	2007 £
Operating (loss)/profit	(749,726)	633,180
Decrease/(increase) in debtors	2,324,192	(2,193,594)
Increase/(decrease) in creditors	569,877	(994,755)
Net cash inflow/(outflow) from operating activities	<u>2,144,343</u>	<u>(2,555,169)</u>

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

	2008 £	2007 £
Increase in cash in the period	4,958	3,331
Net cash outflow from/(inflow) from bank loans	2,279,965	(2,708,567)
Net (inflow) from other short-term creditors	(198,446)	—
	<u>2,086,477</u>	<u>(2,705,236)</u>
Change in net debt	2,086,477	(2,705,236)
Net debt at 1 July 2007	(8,401,926)	(5,696,690)
Net debt at 30 June 2008	<u>(6,315,449)</u>	<u>(8,401,926)</u>

# Cheval Finance Limited

## Notes to the financial statements

Year ended 30 June 2008

### 13. Notes to the statement of cash flows (continued)

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

	At 1 Jul 2007 £	Cash flows £	At 30 Jun 2008 £
Net cash:			
Cash in hand and at bank	<u>3,331</u>	<u>4,958</u>	<u>8,289</u>
Debt:			
Debt due within 1 year	<u>(8,405,257)</u>	<u>2,081,519</u>	<u>(6,323,738)</u>
Net debt	<u>(8,401,926)</u>	<u>2,086,477</u>	<u>(6,315,449)</u>

### 14. 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 re-charge expenses 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. In prior years these expenses were treated as a management charge.

The ultimate parent company is Ambition Capital Limited, which is incorporated in Guernsey. There was no controlling party during the year under review but from 27 January 2009 Volkomen Financiering BV gained the right to appoint the majority of the board of directors of Cheval Property Finance Plc and therefore to control the day to day running of the company.

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, details of which are given on page 1.