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Company Registration Number 3709012

Chantrey Vellacott DFKLLP

Cheval Finance Limited

Financial statements

30 June 2009



Cheval Finance Limited
Financial statements
Year ended 30 June 2009

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Cheval Finance Limited

Officers and professional advisers

The board of directors

C Halpern
A Kay
A S Margolis

Company secretary

A S Margolis

Registered office

Meridien House
Clarendon Road
Watford
Hertfordshire
WD17 1DS

Auditor

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

Bankers

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

Cheval Finance Limited**Directors' report (continued)****Year ended 30 June 2009**

The directors present their report and the audited financial statements of the Company for the year ended 30 June 2009.

Principal activities and business review

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

During the year to 30 June 2009, the Company was authorised with the Financial Services Authority, with regard to regulated mortgage business. On 5 August 2009 the Company submitted a request to cancel this authorisation as a result of the Company no longer had sufficient capital to meet its regulatory requirements and was unlikely to be able to meet these requirements in the foreseeable future. The cancellation is to take effect from 1 February 2010 in order to give the pre-existing regulated loans in the loan book the time to redeem in the ordinary course of business. If the regulated loans have not redeemed by this time, the cancellation will be postponed by a further 6 months.

Turnover has fallen from £2,365,545 to £1,519,050 in 2009. The Company sustained a Net loss after tax of £201,890 compared with £555,282 in the prior year. The loss for the period should be considered in light of the specific bad debts mentioned below. Turnover decreased because the average loan book outstanding during the year fell considerably compared to the year ended June 2008.

As a result of the financial difficulties experienced by Landsbanki Commercial Finance, the Company agreed not to undertake any new lending post February 2009. The outstanding balance on the loan facility with Landsbanki Commercial Finance was repaid in full on 12 June 2009. At that date the loan facility of £25,000,000 came to an end.

Bad debts

It is 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. As a result of constant proactive management of the loan book by our Credit Control team, management are kept up to date on a weekly basis with the performance of the loan book and progress with recoverability of loans when appropriate. As a result, the estimated recoverable value of the security held against a particular loan is under constant scrutiny and any necessary provisions are made promptly and prudently in accordance with the policy above. Notwithstanding the substantial fall in the loan book during the period, the specific bad debt provision has only fallen from £1,504,358 to £1,381,919 in 2009. This is largely the result of diminutions in the value of the security properties of a number of non-performing loans written during 2006 and 2007, and includes the interest income charged on those loans. A portion of the provision can be attributed to negligent valuations undertaken by third party surveyors. The Company has put the insurers of these surveyors on notice of possible claims and will commence legal proceedings where appropriate. The benefit to the Company of any such claims has not been shown in the accounts. Whilst management have attempted to identify all impairments in collateral values, it is possible that further write downs may be necessary in the event that the property market remains under pressure.

Going concern

These accounts have been prepared on a going concern basis and assume that the Group continues to receive the support of its funding banks and mezzanine provider. 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 signature of these accounts, management is of the current belief that it has the support of all its lenders. However management is mindful that in this uncertain economic environment this support could be withdrawn at any time. Management's view is derived from meetings and conversations held with the Group's lenders and the receipt of amended facility agreements where appropriate, all of which have indicated the support of the lenders.

Cheval Finance Limited**Directors' report (continued)****Year ended 30 June 2009**

The Balance Sheet of the Company showed a net negative equity position of £342,185 as at 30 June 2009 with cash on hand of £1,894. Notwithstanding this, management believe that the Company 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 13 months commencing 1 December 2009 and management believe that the Group has sufficient resources to continue trading for the foreseeable future. While the cash flow has been based on realistic and prudent assumptions if these were to change materially then management would have to revisit their going concern conclusion
- (ii) The Group is able to meet its day to day ordinary indebtedness
- (iii) The Group has the support of all its lenders at the current time
- (iv) The mezzanine debt at the Group level has been rescheduled from short term to long term thereby acting as quasi equity until 27 January 2011.

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

Strategy and future outlook

The Company has not provided any new loans since February 2009. As the Company does not currently have a funding facility in place, the Company is focusing all its efforts on the collection of its back book. It has no intentions of doing any new lending in the foreseeable future.

Results and dividends

The results for the year ended 30 June 2009 are shown in the profit and loss account on page 8. Given the financial performance and position of the Company, no dividend will be paid. This will be the policy for the foreseeable future.

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

Directors

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

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

B S Hersch retired as a director on 1 May 2009.

M Posniak retired as a director on 11 December 2008.

E L Sher retired as a director on 26 February 2009.

Cheval Finance Limited**Directors' report (continued)****Year ended 30 June 2009****Directors' responsibilities**

The directors are responsible for preparing the directors' 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). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. 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:

	2009 £	2008 £
Charitable donations	<u>381</u>	<u>322</u>

Cheval Finance Limited

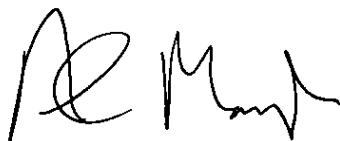
Directors' report (continued)

Year ended 30 June 2009

Auditor

Chantrey Vellacott DFK LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

Signed by order of the directors



A S Margolis
Company Secretary

Approved by the directors on 22.12.09

Chantrey Vellacott DFK LLP

Cheval Finance Limited**Independent auditor's report to the shareholder of Cheval Finance Limited****Year ended 30 June 2009**

We have audited the financial statements of Cheval Finance Limited for the year ended 30 June 2009 which comprise the profit and loss account, balance sheet, cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's shareholder, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. 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

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by directors; and the overall presentation of the financial statements.

Cheval Finance Limited

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

Year ended 30 June 2009

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 £201,890 during the year ended 30 June 2009 and, at that date, the company's liabilities exceeded its total assets by £342,185. 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

chantrey vellacott dfk llp

MARK STEVENS (Senior Statutory Auditor)
for and on behalf of CHANTREY VELLACOTT DFK LLP
Chartered Accountants and Statutory Auditor
Watford

23/12/2009

Cheval Finance Limited
Profit and loss account
Year ended 30 June 2009

	Note	2009 £	2008 £
Turnover	2	1,519,050	2,365,545
Cost of sales		518,847	1,050,226
Gross profit		1,000,203	1,315,319
Administrative expenses		1,237,477	2,065,045
Operating loss	3	(237,274)	(749,726)
Attributable to:			
Operating profit before exceptional items		498,334	754,632
Exceptional items	3	(735,608)	(1,504,358)
		(237,274)	(749,726)
Interest receivable		12,097	4,347
Loss on ordinary activities before taxation		(225,177)	(745,379)
Tax on loss on ordinary activities	6	(23,287)	(190,097)
Loss for the financial year		(201,890)	(555,282)

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.

Cheval Finance Limited

Balance sheet

As at 30 June 2009

	Note	2009 £	2008 £
Current assets			
Debtors	7	2,592,540	10,694,351
Cash at bank		1,894	8,289
		<u>2,594,434</u>	<u>10,702,640</u>
Creditors: amounts falling due within one year	8	2,936,619	10,842,935
		<u>(342,185)</u>	<u>(140,295)</u>
Net current liabilities			
		<u>(342,185)</u>	<u>(140,295)</u>
Total assets less current liabilities			
		<u>(342,185)</u>	<u>(140,295)</u>
Capital and reserves			
Called up equity share capital	10	100	100
Profit and loss account	11	(342,285)	(140,395)
Deficit	12	<u>(342,185)</u>	<u>(140,295)</u>

These financial statements were approved by the directors and authorised for issue on 22.12.09, and are signed on their behalf by:


A Margolis
Director

Company Registration Number: 3709012

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

Cheval Finance Limited

Cash flow statement

Year ended 30 June 2009

	Note	2009 £	2008 £
Net cash (outflow) inflow from operating activities	13(a)	(208,589)	62,824
Returns on investments and servicing of finance			
Interest received		<u>12,097</u>	<u>4,347</u>
Net cash inflow from returns on investments and servicing of finance		12,097	4,347
Taxation		190,097	(62,213)
(Decrease)/increase in cash	13(c)	<u>(6,395)</u>	<u>4,958</u>

Chantrey Vellacott DFKLLLP

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

Cheval Finance Limited**Notes to the financial statements****Year ended 30 June 2009**

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 accounts have been prepared on a going concern basis and assume that the Group continues to receive the support of its funding banks and mezzanine provider. 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 signature of these accounts, management is of the current belief that it has the support of all its lenders. However management is mindful that in this uncertain economic environment this support could be withdrawn at any time. Management's view is derived from meetings and conversations held with the Group's lenders and the receipt of amended facility agreements where appropriate, all of which have indicated the support of the lenders.

The Balance Sheet of the Company showed a net negative equity position of £342,185 as at 30 June 2009 with cash on hand of £1,894. Notwithstanding this, management believe that the Company 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 13 months commencing 1 December 2009 and management believe that the Group has sufficient resources to continue trading for the foreseeable future. While the cash flow has been based on realistic and prudent assumptions if these were to change materially then management would have to revisit their going concern conclusion
- (ii) The Group is able to meet its day to day ordinary indebtedness
- (iii) The Group has the support of all its lenders at the current time
- (iv) The mezzanine debt at the Group level has been rescheduled from short term to long term thereby acting as quasi equity until 27 January 2011.

Management review the cash position of the group on a regular basis and all decisions are made in the best interests of all stakeholders. Management 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.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

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 2009

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:

	2009 £	2008 £
United Kingdom	<u>1,519,050</u>	<u>2,365,545</u>

3. Operating loss

Operating loss is stated after charging:

	2009 £	2008 £
Operating lease costs:		
- Plant and equipment	661	744
- Other	16,888	9,787
Net loss on foreign currency translation	15	-
Auditor's remuneration	7,376	9,900
Specific bad debt provision	<u>735,608</u>	<u>1,504,358</u>

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

	2009 £	2008 £
Auditor's remuneration - audit of the financial statements	<u>7,376</u>	<u>9,900</u>

Cheval Finance Limited

Notes to the financial statements

Year ended 30 June 2009

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:

	2009 No	2008 No
Number of management staff	<u>5</u>	<u>6</u>

The aggregate payroll costs of the above were:

	2009 £	2008 £
Wages and salaries	241,850	277,051
Social security costs	25,855	38,285
Other pension costs	<u>33,604</u>	<u>10,042</u>
	<u>301,309</u>	<u>325,378</u>

Staff costs relate to amounts that have been reallocated 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' remuneration

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

	2009 £	2008 £
Remuneration receivable	<u>116,023</u>	<u>106,179</u>

6. Taxation on ordinary activities

(a) Analysis of charge in the year

	2009 £	2008 £
Current tax:		
UK Corporation tax based on the results for the year at 28% (2008 - 29.50%)	(23,287)	(190,097)
Total current tax	<u>(23,287)</u>	<u>(190,097)</u>

Cheval Finance Limited

Notes to the financial statements

Year ended 30 June 2009

6. Taxation on ordinary activities (*continued*)

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is at a higher rate than the standard rate of corporation tax in the UK of 28% (2008 - 29.50%).

	2009 £	2008 £
Loss on ordinary activities before taxation	(225,177)	(745,379)
Loss on ordinary activities multiplied by rate of tax	(63,050)	(219,887)
Expenses not deductible for tax purposes	347	1,203
Utilisation of tax losses	7,322	15,184
Unrelieved tax losses	100,067	21,569
Adjustments to tax charge in respect of previous periods	(21,734)	-
General bad debt provision multiplied by rate of tax	(44,686)	32,081
Effect of change in rate on losses carried back to prior year	(1,553)	(3,168)
Transfer pricing adjustment	-	(37,079)
Total current tax (note 6(a))	(23,287)	(190,097)

7. Debtors

	2009 £	2008 £
Due from borrowers	2,530,532	10,324,782
Corporation tax repayable	23,287	190,097
Prepayments and accrued income	38,721	179,472
	<u>2,592,540</u>	<u>10,694,351</u>

Debtors are shown net of bad debt provisions of £1,381,919 (2008: £1,504,358). The movement in these provisions in the year 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 2009

8. Creditors: amounts falling due within one year

	2009 £	2008 £
Bank loans	—	6,125,292
Amounts owed to group undertakings	2,647,314	4,326,294
Other creditors	217,820	198,446
Accruals and deferred income	71,485	192,903
	<u>2,936,619</u>	<u>10,842,935</u>

The loan from the parent company is repayable on demand.

The outstanding balance on the loan facility with Landsbanki Commercial Finance was repaid in full on 12 June 2009. At that date the loan facility of £25,000,000 came to an end and a Deed of Release was entered into by Cheval Finance Limited, Cheval Property Finance plc, Credit Investment Limited and Landsbanki Commercial Finance whereby Landsbanki Commercial Finance released all debentures, guarantees and sub-mortgages held as security for the loan facility. During the year interest was payable at 2.68% above LIBOR.

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

	2009 £	2008 £
Bank loans	—	6,125,292

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:

	2009 £	2008 £
50,000 Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

Allotted, called up and fully paid:

	2009 No	£	2008 No	£
100 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 2009****11. Profit and loss account**

	2009 £	2008 £
Balance brought forward	(140,395)	414,887
Loss for the financial year	(201,890)	(555,282)
Balance carried forward	<u>(342,285)</u>	<u>(140,395)</u>

12. Reconciliation of movements in shareholder's funds

	2009 £	2008 £
Loss for the financial year	(201,890)	(555,282)
Opening shareholder's (deficit)/funds	<u>(140,295)</u>	<u>414,987</u>
Closing shareholder's deficit	<u>(342,185)</u>	<u>(140,295)</u>

13. Notes to the cash flow statement**(a) Reconciliation of operating loss to net cash outflow from operating activities**

	2009 £	2008 £
Operating loss	(237,274)	(749,726)
Decrease in debtors	7,935,001	2,324,192
(Decrease)/increase in creditors	<u>(1,800,398)</u>	<u>569,877</u>
Net cash inflow from operating activities before financing	<u>5,897,329</u>	<u>2,144,343</u>
Financing		
Repayment of bank loans	(6,125,292)	(2,279,965)
Net inflow from other short-term creditors	<u>19,374</u>	<u>198,446</u>
Net cash outflow from financing	<u>(6,105,918)</u>	<u>(2,081,519)</u>
Net cash (outflow) /inflow from operating activities	<u>(208,589)</u>	<u>62,824</u>

Cheval Finance Limited

Notes to the financial statements

Year ended 30 June 2009

13. Notes to the cash flow statement (continued)

(b) Reconciliation of net cash flow to movement in net funds

	2009 £	2008 £
(Decrease)/increase in cash in the period	(6,395)	4,958
Net cash outflow from bank loans	6,125,292	2,279,965
Net (inflow) from other short-term creditors	(19,374)	(198,446)
	<u>6,099,523</u>	<u>2,086,477</u>
Change in net funds	6,099,523	2,086,477
Net debt at 1 July 2008	(6,315,449)	(8,401,926)
Net funds at 30 June 2009	<u>(215,926)</u>	<u>(6,315,449)</u>

(c) Analysis of changes in net funds

	At 1 Jul 2008 £	Cash flows £	At 30 Jun 2009 £
Net cash:			
Cash in hand and at bank	8,289	(6,395)	1,894
Debt:			
Debt due within 1 year	(6,323,738)	6,105,918	(217,820)
Net funds	<u>(6,315,449)</u>	<u>6,099,523</u>	<u>(215,926)</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 reallocate 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. These expenses are included within administrative expenses.

The ultimate parent company is Ambition Capital Limited, which is incorporated in Guernsey. There was no controlling party during the year under review until 27 January 2009. From this date 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.