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Chantrey Vellacott DFK LLP

CHEVAL FINANCE LIMITED

Financial Statements
30 June 2005



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CHEVAL FINANCE LIMITED

Financial statements for the period ended 30 June 2005

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CHEVAL FINANCE LIMITED

Company information

Directors

N C Epstein
A S Margolis
J H Margolis
P Rumbold
B S Hersch
A Kay
M Chesler

Secretary

A S Margolis

Registered office

2nd Floor Stanmore House
15-19 Church Road
Stanmore
Middx. HA7 4AR

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

Chantrey Vellacott DFK LLP

CHEVAL FINANCE LIMITED

Directors' report for the period ended 30 June 2005

The directors present their report and the financial statements of the company for the period ended 30 June 2005.

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 increased, but gross margins have decreased compared with those of the previous year. Profits remain satisfactory.

During the year the company became authorised with the Financial Services Authority, with regard to regulated mortgage contract business.

As previously, the outlook for both UK property and the economy as a whole remains uncertain. The company should benefit from the anticipated growth of the Cheval group, of which it is a member.

Results and dividends

The results for the period ended 30 June 2005 are shown in the profit and loss account on page 5. The profit for the period after taxation was £352,285.

An interim ordinary dividend was paid amounting to £300,000. The directors recommend payment of a final dividend amounting to £215,000.

Directors

The directors who served during the period were:

S Cohen	(Resigned 13 April 2005)
N C Epstein	
A S Margolis	
J H Margolis	
P Rumbold	(Appointed 8 June 2005)
B S Hersch	
A Kay	
M Chesler	(Appointed 28 July 2004)

Directors' interests in shares

The directors' interests in the shares of the company were as stated below:

	Ordinary shares of £ 1 each	
	30 June 2005	1 July 2004
N C Epstein	-	-
A S Margolis	-	-
J H Margolis	-	-
P Rumbold	-	-
B S Hersch	-	-
A Kay	-	-
M Chesler	-	-

CHEVAL FINANCE LIMITED

Directors' report for the period ended 30 June 2005 (continued)

The directors' interests in the shares of the parent company are shown in those accounts.

Creditor payment policy

It is the company's policy to settle its invoices within 30 days of receipt. At 30 June 2005 there were no trade creditors as defined by the Companies Act and therefore no calculation of the creditor payment period is necessary.

Auditors

Chantrey Vellacott DFK LLP were appointed auditors to the company and in accordance with Section 385 of the Companies Act 1985, a resolution to reappoint Chantrey Vellacott DFK LLP will be proposed at the forthcoming Annual General Meeting.

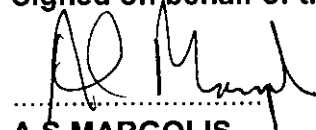
Directors' responsibilities

Company law requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the company at the end of its financial period and of the profit or loss of the company for the period then ended. 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 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 which disclose with reasonable accuracy at any time the financial position of the company and to 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.

Signed on behalf of the Board



A S MARGOLIS
Director

Approved by the Board on 15.11.05

Chantrey Vellacott DFK LLP

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 period ended 30 June 2005 which are set out on pages 5 to 12. These financial statements have been prepared under the historical cost convention and 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.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company 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 United Kingdom Auditing Standards 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 of the state of the company's affairs as at 30 June 2005 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

chantrey vellacott dfk llp

CHANTREY VELLACOTT DFK LLP

Chartered Accountants
Registered Auditors

WATFORD

17.11.2005

CHEVAL FINANCE LIMITED

Profit and loss account for the period ended 30 June 2005

	Notes	2005 £	2004 £
Turnover	2	1,467,809	1,259,984
Cost of sales		<u>1,001,807</u>	<u>517,349</u>
Gross profit		466,002	742,635
Administrative expenses		<u>(31,109)</u>	<u>117,231</u>
Operating profit		497,111	625,404
Interest receivable and similar income	3	<u>6,153</u>	-
Profit on ordinary activities before taxation	4	503,264	625,404
Tax on profit on ordinary activities	6	<u>150,979</u>	<u>187,621</u>
Profit on ordinary activities after taxation		352,285	437,783
Dividends	7	<u>515,000</u>	<u>400,000</u>
Retained (loss)/profit for the period	11	<u>(162,715)</u>	<u>37,783</u>

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.

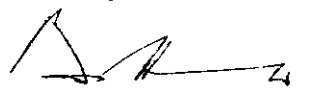
The notes on pages 8 to 12 form part of these financial statements.

CHEVAL FINANCE LIMITED

Balance sheet at 30 June 2005

	Notes	2005 £	2004 £
Current assets			
Debtors	8	8,460,196	9,798,677
Cash at bank and in hand		287,965	72,120
		<u>8,748,161</u>	<u>9,870,797</u>
Creditors: amounts falling due within one year	9	(8,743,733)	(9,703,654)
		<u>4,428</u>	<u>167,143</u>
Total assets less current liabilities			
		<u>4,428</u>	<u>167,143</u>
Capital and reserves			
Called up share capital	10	100	100
Profit and loss account	11	4,328	167,043
		<u>4,428</u>	<u>167,143</u>
Shareholders' funds	12	4,428	167,143

Approved by the Board on 15.11.05 and signed on its behalf.



B S HERSCH - Director

The notes on pages 8 to 12 form part of these financial statements.

CHEVAL FINANCE LIMITED

Cash flow statement for the period 30 June 2005

	Notes	2005 £	2004 £
Net cash inflow/(outflow) from operating activities	13a	1,048,474	(1,286,779)
Returns on investments and servicing of finance			
Interest received		6,153	-
Net cash inflow/(outflow) from returns on investments and servicing of finance		6,153	-
Taxation		(58,764)	(336,794)
Equity dividends paid		(300,000)	(400,000)
Net cash inflow/(outflow) before management of liquid resources and financing		695,863	(2,023,573)
Financing			
Other new short term loans		-	1,771,255
Repayment of other short term loans		(480,018)	-
Net cash (outflow)/inflow from financing		(480,018)	1,771,255
Increase/(decrease) in cash in the period	13b,c	215,845	(252,318)

The notes on pages 8 to 12 form part of these financial statements.

CHEVAL FINANCE LIMITED

Notes to the financial statements for the period ended 30 June 2005

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

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 is 100% receivable 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	2005	2004
	£	£
Bank interest	6,153	-

4 Profit on ordinary activities before taxation	2005	2004
	£	£
This is stated after charging:		
Auditors' remuneration:		
In respect of audit services	7,138	3,600

5 Employee information

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

6 Taxation	2005	2004
	£	£
Domestic current year tax		
U.K. corporation tax	150,979	187,621
Current tax charge	150,979	187,621
Factors affecting the tax charge for the period		
Profit on ordinary activities before taxation	503,264	625,404
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2004- 30.00%)	150,979	187,621

CHEVAL FINANCE LIMITED

Notes to the financial statements for the period ended 30 June 2005 (continued)

7 Dividends	2005	2004
	£	£
On equity shares:		
Interim of £3,000.00 (2004- £4,000.00) per ordinary share paid	300,000	400,000
Proposed final of £2,150.00 (2004- £Nil) per ordinary share	215,000	-
	<hr/>	<hr/>
Making a total of £5,150.00 (2004- £4,000.00) per ordinary share	515,000	400,000
	<hr/>	<hr/>
8 Debtors	2005	2004
	£	£
Trade debtors	8,299,460	9,423,175
Other debtors	82,500	281,250
Prepayments and accrued income	78,236	94,252
	<hr/>	<hr/>
	8,460,196	9,798,677
	<hr/>	<hr/>
9 Creditors: amounts falling due within one year	2005	2004
	£	£
Bank loan	4,820,382	5,300,400
Amounts owed to parent company	3,455,250	4,210,362
Corporation tax	187,421	95,206
Proposed dividend	215,000	-
Other creditors	11,998	-
Accruals and deferred income	53,682	97,686
	<hr/>	<hr/>
	8,743,733	9,703,654
	<hr/>	<hr/>
Debt due in one year or less	4,820,382	5,300,400
	<hr/>	<hr/>

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 guaranteed by the parent company and is partly guaranteed by directors, N C Epstein and J H Margolis.

CHEVAL FINANCE LIMITED

Notes to the financial statements for the period ended 30 June 2005 (continued)

10 Called up share capital	2005	2004
	£	£
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>
11 Reserves		Profit and loss account £
At 1 July 2004		167,043
Loss for the period		<u>(162,715)</u>
At 30 June 2005		<u>4,328</u>
12 Reconciliation of movement on shareholders' funds	2005	2004
	£	£
Profit for the financial period	352,285	437,783
Dividends	<u>(515,000)</u>	<u>(400,000)</u>
Net (depletion in)/addition to shareholders' funds	(162,715)	37,783
Opening shareholders' funds	<u>167,143</u>	<u>129,360</u>
Closing shareholders' funds	<u>4,428</u>	<u>167,143</u>

Shareholders' funds are fully attributable to equity interests.

CHEVAL FINANCE LIMITED

Notes to the financial statements for the period ended 30 June 2005 (continued)

13 Notes to the cash flow statement

a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities		2005	2004
		£	£
Operating profit		497,111	625,404
Decrease/(increase) in debtors		1,338,481	(1,548,169)
Decrease in creditors within one year		(787,118)	(364,014)
Net cash inflow/(outflow) from operating activities		1,048,474	(1,286,779)
b) Analysis of changes in net debt	1 July 2004	Cash flow	30 June 2005
	£	£	£
Net cash:			
Cash at bank and in hand	72,120	215,845	287,965
Debt:			
Debt falling due within one year	(5,300,400)	480,018	(4,820,382)
Net debt	(5,228,280)	695,863	(4,532,417)
c) Reconciliation of net cash flow to movement in net debt		2005	2004
		£	£
Increase/(decrease) in cash in the period		215,845	(252,318)
Cash outflow/(inflow) from decrease/(increase) in debt		480,018	(1,771,255)
Change in net debt resulting from cash flows		695,863	(2,023,573)
Opening net debt		(5,228,280)	(3,204,707)
Closing net debt		(4,532,417)	(5,228,280)

14 Control

The parent company is Cheval Property Finance plc, which is registered in the United Kingdom (company number - 3131133). The ultimate controlling parent company is Cheval Group Holdings Limited, which is incorporated in the British Virgin Islands.

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

The ultimate controlling party is Mr Norman Epstein, a director of the company.

CHEVAL FINANCE LIMITED

Notes to the financial statements for the period ended 30 June 2005 (continued)

15 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.