Company Registration Number 04430986

ChantreyVellacott DFK LLP

Cheval Bridging Finance Limited

Annual report

30 June 2012

Contents | **Pages**

ChantreyVellacottDFKLLP

Officers and professional advisers

The board of directors	M D Chesler A H Kay G R B Pitzer D J Murray G R Diamond D M Levine
Registered office	Victoria House 49 Clarendon Road Watford Hertfordshire WD17 1HP
Auditor	Chantrey Vellacott DFK LLP Chartered Accountants Statutory Auditor First Floor 73-75 High Street Stevenage Herts SG1 3HR
Bankers	Clydesdale Bank PLC 1 Georges Square Bath Street Bristol BS1 6BP

The directors present their report and the audited financial statements of the company for the year ended 30 June 2012

Principal activities and business review
The principal activity is granting of short term loans secured by legal charges over land and buildings The company is authorised by the Financial Services Authority with regard to regulated mortgage business

Going concern
The Balance sheet of the company showed a negative position of £32,495 as at 30 June 2012 with cash on hand of £930,670 Management were unable to renegotiate the loan facility and post year end the Clydesdale facility has been repaid in full and the account closed The company is currently winding down its loan book until an alternative financer or solution can be found

These accounts have been prepared on a going concern basis and assume that Cheval continues to receive support from the Cheval Holdings Group shareholders If this support is withdrawn without an adequate funding line to replace it then there is a high probability that the company will be unable to continue as a going concern As at the date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 the company has the support of its shareholders However management are mindful that in this uncertain economic environment this support could be withdrawn at any time

Results and dividends
The loss for the year amounted to £93,519 The directors have not recommended a dividend

Financial risk management objectives and policies
The company is in the business of managing risk The key risks are funding and collateral risk The company is dependent on the continued support of its funding partners, without which there would be no liquidity with which to lend

In order to ensure stable funding lines, we ensure that we have multiple funding partners so as to avoid concentration or dependency risk

The value of our collateral is an inherent risk in our business We actively manage all loans on our book and take active steps to ensure that the value of the collateral is preserved or enhanced where appropriate In a volatile property market, active collateral management is key to the success of any asset-backed lender We recognise this risk and have policies and procedures in place to manage this risk effectively

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

M D Chesler
A H Kay
G R B Pitzer
D J Murray
G R Diamond
D M Levine

M D Chesler was appointed as a director on 4 August 2011
D M Levine was appointed as a director on 4 August 2011
G R Diamond retired as a director on 7 March 2013

Policy on the payment of creditors
The company's current policy concerning the payment of trade creditors is to

- settle the terms of payment with suppliers when agreeing the terms of each transaction,
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts, and
- pay in accordance with the company's contractual and other legal obligations

Due to the nature of the business with the majority of the cost being administrative and interest based it is not considered useful to disclose the number of creditor days

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,
- 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

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 H Kay

Director

Approved by the directors on 27-3-13

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

Year ended 30 June 2012

We have audited the financial statements of Cheval Bridging Finance Limited for the year ended 30 June 2012 which comprise the profit and loss account, balance sheet 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 Chapter 3 of Part 16 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 3, 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 and express an opinion on 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 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 In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2012 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 £93,519 during the year ended 30 June 2012 and, at that date, the company's current liabilities exceeded its total assets by £32,495 These conditions along with 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 matter 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
Stevenage
28/3/2013

Cheval Bridging Finance Limited

Profit and loss account

Year ended 30 June 2012

	Note	2012 £	2011 £
Turnover	2	1,778,283	1,330,952
Cost of sales		634,310	296,570
Gross profit		1,143,973	1,034,382
Administrative expenses		1,325,388	2,160,866
Other operating income	3	(86,699)	(205,380)
Operating loss	4	(94,716)	(921,104)
Attributable to			
Operating profit before exceptional items		246,784	357,305
Exceptional items	4	(341,500)	(1,278,409)
		(94,716)	(921,104)
Interest receivable		1,197	1,981
Interest payable and similar charges	7	–	(48)
Loss on ordinary activities before taxation		(93,519)	(919,171)
Tax on loss on ordinary activities	8	–	–
Loss for the financial year		(93,519)	(919,171)

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 15 form part of these financial statements

Cheval Bridging Finance Limited

Balance sheet

As at 30 June 2012

	Note	2012 £	2011 £
Current assets			
Debtors	10	12,495,110	8,081,263
Cash at bank and in hand		930,670	952,027
		13,425,780	9,033,290
Creditors amounts falling due within one year	11	13,458,275	8,972,266
Net current (liabilities)/assets		(32,495)	61,024
Total assets less current liabilities		(32,495)	61,024
Capital and reserves			
Called up equity share capital	14	100	100
Profit and loss account	15	(32,595)	60,924
(Deficit)/shareholder's funds	16	(32,495)	61,024

These financial statements were approved by the directors and authorised for issue on 27-3-13, and are signed on their behalf by

A H Kay

Company Registration Number 04430986

The notes on pages 9 to 15 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
The Balance sheet of the company showed a negative position of £32,495 as at 30 June 2012 with cash on hand of £930,670 Management were unable to renegotiate the loan facility and post year end the Clydesdale facility has been repaid in full and the account closed The company is currently winding down its loan book until an alternative financer or solution can be found

These accounts have been prepared on a going concern basis and assume that Cheval continues to receive support from the Cheval Holdings Group shareholders If this support is withdrawn without an adequate funding line to replace it 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 the company has the support of its shareholders However management are mindful that in this uncertain economic environment this support could be withdrawn at any time

Cash flow statement
The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is small

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

Pension costs
The company operates a defined contribution pension scheme for employees The assets of the scheme are held separately from those of the company The annual contributions payable are charged to the profit and loss account

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 liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument Dividends and distributions relating to equity instruments are debited direct to equity

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

	2012 £	2011 £
United Kingdom	**1,778,283**	1,330,952

3 Other operating income

	2012 £	2011 £
Other operating income	**86,699**	205,380

Other operating income relates to administrative expenses re-charged to the parent company of a prior fellow subsidiary company, as disclosed in note 18

4 Operating loss

Operating loss is stated after charging/(crediting)

	2012 £	2011 £
Operating lease costs		
- Other	**36,330**	44,111
Auditor's remuneration	**10,300**	11,287
Specific bad debts	**341,500**	(215,375)
Amounts due from group undertakings written off	**-**	1,493,784

Exceptional items, totalling £341,500 (2011 - £1,278,409) as shown on the face of the profit and loss account, comprise specific bad debts of £341,500 (2011 - bad debts recovered of (215,375))and amounts due from group undertakings written off of £Nil (2011 - £1,493,784) Further details of these exceptional items are disclosed in note 10

	2012 £	2011 £
Auditor's remuneration - audit of the financial statements	**10,300**	11,287

5 Particulars of employees

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

	2012 No	2011 No
Administrative	7	3
Management	2	2
	9	5

The aggregate payroll costs of the above were

	2012 £	2011 £
Wages and salaries	368,669	214,763
Social security costs	43,047	25,264
Other pension costs	9,825	6,551
	421,541	246,578

All employee contracts are with the parent company As payroll costs have been reallocated to the company in their entirety, staff numbers and costs include all staff for the year

6 Directors' remuneration

The directors' aggregate remuneration in respect of qualifying services were

	2012 £	2011 £
Remuneration receivable	97,592	65,205

The number of directors who accrued benefits under company pension schemes was as follows

	2012 No	2011 No
Money purchase schemes	1	1

7 Interest payable and similar charges

	2012 £	2011 £
On loans from parent company	**451,236**	183,698
On bank loans wholly repayable within 5 years	**183,074**	112,872
Bank overdraft interest	**–**	48
	634,310	296,618
Included in cost of sales	**(634,310)**	(296,570)
	–	48

8 Taxation on ordinary activities

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 25 50% (2011 - 26 80%)

	2012 £	2011 £
Loss on ordinary activities before taxation	**(93,519)**	(919,171)
Loss on ordinary activities multiplied by rate of tax	**(23,847)**	(246,338)
Expenses not deductible for tax purposes	**868**	400,760
Unrelieved tax losses	**1,304**	-
General bad debt provision multiplied by rate of tax	**21,675**	2,680
Group relief claimed	**-**	(157,102)
Total current tax	**-**	-

9 Dividends

Equity dividends

	2012 £	2011 £
Paid		
Equity dividends on ordinary shares	**–**	4,151,306

10 Debtors

	2012	2011
	£	£
Trade debtors	12,240,557	7,798,070
Amounts owed by group undertakings	4,977	2,757
Corporation tax repayable	15,000	15,000
VAT recoverable	–	6,300
Other debtors	97,694	72,179
Prepayments and accrued income	136,882	186,957
	12,495,110	8,081,263

Debtors are shown net of general bad debt provisions of £95,000 (2011 - £10,000) and specific bad debt provisions of £349,534 (2011 - £nil) Specific bad debt provision of £341,500 (2011 - bad debts recovered-£(215,375)), in the year, have been treated as an exceptional item within administrative expenses as disclosed in note 4

Trade debtors are the amounts due from borrowers and are secured by legal charges held over land and buildings, regarding which the group and company had received professional valuations

11 Creditors amounts falling due within one year

	2012	2011
	£	£
Bank loans	7,705,734	2,635,395
Trade creditors	14,973	89,436
Amounts owed to group undertakings	5,036,329	5,067,208
PAYE and social security	15,957	17,321
VAT	1,803	–
Other creditors	96,806	787,908
Accruals and deferred income	586,673	374,998
	13,458,275	8,972,266

Clydesdale Bank plc hold a fixed and floating charge over the assets of the company At the year end the Clydesdale Bank plc loan facility was for a maximum of £9,000,000 Interest was payable at 3 25% per annum above Bank of England base rate A non-utilisation fee of 0 35% per annum is payable on the difference between the average drawn balance and £9,000,000 At the year end the net liability under the facility in the company was £7,705,734 (2011 - £2,635,395) The facility was fully repaid post year end and the facility and account were closed and the securities discharged

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

	2012	2011
	£	£
Bank loans	7,705,734	2,635,395

12 Commitments under operating leases

At 30 June 2012 the company had annual commitments under non-cancellable operating leases as set out below

	2012		2011	
	Land and buildings	Other items	Land and buildings	Other items
	£	£	£	£
Operating leases which expire				
Within one year	-	5,381	-	3,666
Within two to five years	31,263	-	17,585	5,381
	31,263	5,381	17,585	9,047

13 Related party transactions

The company has taken advantage of the exemptions conferred by Financial Reporting Standard No 8, exemption (c), from the requirement to make disclosures concerning related parties

14 Share capital

Allotted, called up and fully paid

	2012		2011	
	No	£	No	£
100 Ordinary shares of £1 each	100	100	100	100

15 Profit and loss account

	2012	2011
	£	£
Balance brought forward	60,924	2,631,401
Loss for the financial year	(93,519)	(919,171)
Equity dividends	–	(4,151,306)
Released through capital reduction	–	2,500,000
Balance carried forward	(32,595)	60,924

16 Reconciliation of movements in shareholder's funds

	2012 £	2011 £
Loss for the financial year	(93,519)	(919,171)
Less capitalised from reserves	-	2,500,000
	(93,519)	1,580,829
Equity dividends	-	(4,151,306)
Net reduction of shareholder's funds	(93,519)	(2,570,477)
Opening shareholder's funds	61,024	2,631,501
Closing shareholder's (deficit)/funds	(32,495)	61,024

17 Post balance sheet events

A meeting of the parent company's directors and shareholders took place on the 6 December 2012 when it was decided to wind down the loan book until an alternative financer or solution can be found

18 Ultimate parent company

There was no ultimate controlling party during the year

The company accounts for all its own administrative expenditure, however a service agreement was in place to recharge any expenses over 7% of the average loan book to the parent company of a prior fellow subsidiary company This agreement expired on the 2 February 2012 and for the remainder of the period the company bore all costs