Company Registration Number 04430986

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ChantreyVellacott DFK LLP

Cheval Bridging Finance Limited

Financial statements

30 June 2010

Cheval Bridging Finance Limited

Financial statements

Year ended 30 June 2010

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Cheval Bridging Finance Limited

Officers and professional advisers

The board of directors	C Halpern A Kay
Company secretary	G R Diamond
Registered office	Meridien House Clarendon Road Watford Hertfordshire WD17 1DS
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

Cheval Bridging Finance Limited

Directors' report

Year ended 30 June 2010

The directors have pleasure in presenting their report and the audited financial statements of the company for the year ended 30 June 2010

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 with the Financial Services Authority with regard to regulated mortgage business

The results of the company for the year show a profit on ordinary activities after tax of £614,942 (2009 loss - £234,069) The return to profitability was largely the result of management significantly growing the average performing loan book during the year Administrative expenses are shown net of bad debts recovered and successful professional indemnity claims totalling £168,762

The performance of the company during 2010 has been encouraging, with the level of enquiries and loan completions increasing steadily year-on-year The company continued to reinforce the brand in the intermediary market by continuing with targeted cost-effective advertising campaigns and news releases in both print and digital media This was supplemented with a successful national roadshow, in conjunction with a respected industry publisher, which was aimed at educating brokers and other intermediaries as to how to make best use of short-term loans

Principal risks and uncertainties

The short-term lending market has become extremely competitive with established brands, like Cheval, being joined by several new entrants This has largely been due to continued restricted lending practices in the mainstream mortgage market, and the low interest rate environment Notwithstanding the increased competition, we believe that the company is well positioned to continue to generate a steady level of new business, supported by competitive products and first-rate customer service

One of the key risks in our business is the property market as property forms the primary security for our loans We believe that this risk is mitigated by various methods, including our 16 years of experience in the sector, maintaining a trusted panel of valuers, a detailed and robust underwriting process and sensible loan-to-values

The availability of funding to meet demand is another key risk To this effect, during November 2009 the company was able to successfully renew its funding facility with Clydesdale Bank until March 2013 In addition, a significant amount of additional new funding and working capital has been secured as a result of the entire share capital of the company being sold to Cheval Holdings Limited on 2 February 2011

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

The non-performing loan book has reduced considerably year-on-year and accordingly the specific bad debt provision has reduced to £1,165,017 from £2,142,694 in 2009 This is largely the result of diminutions in the value of the security properties of certain non-performing loans written during 2007, and includes the interest income charged on those loans that is unlikely to be recovered 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 unless the amounts have been received during the year Post year end, amounts totalling £214,400 have been received to date in relation to these claims

Going concern

The Balance Sheet of the company showed a net positive equity position of £2,631,501 as at 30 June 2010 with cash on hand of £321,246 and a significant amount of undrawn funding from Clydesdale Bank

Management has prepared a detailed business and cash flow forecast for the company based on realistic and prudent assumptions The forecast indicates that the company has sufficient resources to continue trading for the foreseeable future and is able to meet its day to day ordinary indebtedness The company has the support of all its lenders at the current time, including a facility from Clydesdale Bank which is being made available until 31 March 2013

As a result, the directors believe that the company has adequate resources and is well placed to manage its business risks successfully Therefore the directors feel it is appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements

Strategy and future outlook

The Company is actively seeking new lending, at sensible LTV's to good borrowers, with the intention of steadily growing the loan book over the next 12 months

Management believe that as a result of the continuing absence of widescale lending by traditional mortgage lenders, as well as the lengthy timescales involved in dealing with such lenders, there is a significant opportunity for any lenders actively seeking new loans This situation is not expected to change materially in the foreseeable future

The company is well positioned to consolidate its good position in the market and concentrate its efforts on building solid relationships with its intermediaries, thereby enabling it to achieve the anticipated growth in its loan book This will be supplemented by changes to the existing product offering

Key performance indicators

Management review the key performance indicators on a regular basis in order to ensure that the company is on track to achieve its targets These indicators include monitoring of business activity, a review of Credit Control reports and loan book performance analysis

Employee matters

The number of permanent staff members reduced by one during the year However, given the intention to grow the loan book, additional headcount is expected during the forthcoming year in the areas of business development and underwriting

Policy and practice on 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

In the opinion of the directors it is not appropriate to disclose the number of creditor days for 2010, as during the year the majority of expenditure was incurred by the parent company, Cheval Property Finance Plc, and then re-charged to the company, as disclosed in note 16 of the financial statements

Results and dividends

The results for the year ended 30 June 2010 are shown in the profit and loss account on page 7 No dividends have been declared

Directors

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

C Halpern
A Kay
A S Margolis

A S Margolis retired as a director on 26 February 2010
C Halpern retired as a director on 2 February 2011
G R B Pitzer was appointed as a director on 21 February 2011
G Diamond was appointed as a director on 22 February 2011

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

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

G R Diamond
Company Secretary

Approved by the directors on 31 March 2011

Cheval Bridging Finance Limited

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

Year ended 30 June 2010

We have audited the financial statements of Cheval Bridging Finance Limited for the year ended 30 June 2010 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 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 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

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 2010 and of its profit 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

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
Stevenage

31 March 2011

Cheval Bridging Finance Limited

Profit and loss account

Year ended 30 June 2010

	Note	2010 £	2009 £
Turnover	**2**	**1,786,436**	1,817,402
Cost of sales		**100,225**	229,935
Gross profit		**1,686,211**	1,587,467
Administrative expenses		**1,072,017**	1,916,660
Operating profit/(loss)	**3**	**614,194**	(329,193)
Attributable to			
Operating profit before exceptional items		**1,146,908**	911,403
Exceptional items	**3**	**(532,714)**	(1,240,596)
		614,194	(329,193)
Interest receivable		**748**	3,400
Profit/(loss) on ordinary activities before taxation		**614,942**	(325,793)
Tax on profit/(loss) on ordinary activities	**6**	**–**	(91,724)
Profit/(loss) for the financial year		**614,942**	(234,069)

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 10 to 17 form part of these financial statements.

ChantreyVellacottDFKLLP

Cheval Bridging Finance Limited

Balance sheet

As at 30 June 2010

	Note	2010 £	2009 £
Current assets			
Debtors	7	8,608,600	7,071,064
Cash at bank		321,246	815,555
		8,929,846	7,886,619
Creditors amounts falling due within one year	8	6,298,345	3,370,060
Net current assets		2,631,501	4,516,559
Total assets less current liabilities		2,631,501	4,516,559
Creditors amounts falling due after more than one year	9	–	2,500,000
		2,631,501	2,016,559
Capital and reserves			
Called up equity share capital	11	100	100
Profit and loss account	12	2,631,401	2,016,459
Shareholder's funds	13	2,631,501	2,016,559

These financial statements were approved by the directors and authorised for issue on 31 March 2011, and are signed on their behalf by

A Kay
Director

Company Registration Number 04430986

The notes on pages 10 to 17 form part of these financial statements

Cheval Bridging Finance Limited

Cash flow statement

Year ended 30 June 2010

	Note	2010 £	2009 £
Net cash (outflow)/inflow from operating activities	14(a)	(495,057)	743,128
Returns on investments and servicing of finance			
Interest received		748	3,400
Net cash inflow from returns on investments and servicing of finance		748	3,400
Taxation		-	-
(Decrease)/increase in cash	14(c)	(494,309)	746,528

ChantreyVellacottDFKLLP

The notes on pages 10 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
The Balance Sheet of the company showed a net positive equity position of £2,631,501 as at 30 June 2010 with cash on hand of £321,246 and a significant amount of undrawn funding from Clydesdale Bank

Management has prepared a detailed business and cash flow forecast for the company based on realistic and prudent assumptions The forecast indicates that the company has sufficient resources to continue trading for the foreseeable future and is able to meet its day to day ordinary indebtedness The company has the support of all its lenders at the current time, including a facility from Clydesdale Bank which is being made available until 31 March 2013

As a result, the directors believe that the company has adequate resources and is well placed to manage its business risks successfully Therefore the directors feel it is appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements

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

2 Turnover

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

An analysis of turnover is given below

	2010 £	2009 £
United Kingdom	**1,786,436**	1,817,402

3 Operating profit/(loss)

Operating profit/(loss) is stated after charging

	2010 £	2009 £
Operating lease costs		
- Plant and equipment	–	766
- Property	**23,617**	19,568
Net loss on foreign currency translation	–	18
Auditor's remuneration	**10,962**	9,185
Specific bad debt provision	**204,709**	1,240,596
Provisions against amounts owed by group undertakings	**328,005**	–

Details of the specific bad debt provision and the provision against amounts owed by group undertakings are disclosed in note 7

	2010 £	2009 £
Auditor's remuneration - audit of the financial statements	**10,962**	9,185

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

	2010 No	2009 No
Number of management staff	3	5

The aggregate payroll costs of the above were

	2010 £	2009 £
Wages and salaries	163,046	280,220
Social security costs	3,745	29,957
Other pension costs	4,219	38,935
	171,010	349,112

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' remuneration

The directors' aggregate remuneration in respect of qualifying services were

	2010 £	2009 £
Remuneration receivable	62,618	134,430

6. Taxation on ordinary activities

(a) Analysis of charge in the year

	2010 £	2009 £
Current tax		
Corporation tax	-	-
Over/under provision in prior year	-	(91,724)
Total current tax	-	(91,724)

6 Taxation on ordinary activities *(continued)*

(b) Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the year is at a lower rate than the standard rate of corporation tax in the UK of 28% (2009 - 28%)

	2010 £	2009 £
Profit/(loss) on ordinary activities before taxation	**614,942**	(325,793)
Profit/(loss) on ordinary activities multiplied by rate of tax	**172,184**	(91,222)
Expenses not deductible for tax purposes	**104**	402
Utilisation of tax losses	**(109,394)**	-
Unrelieved tax losses	-	109,394
Adjustments to tax charge in respect of previous periods	-	(71,609)
General bad debt provision multiplied by rate of tax	-	(32,574)
Effect of change in rate on losses carried back to prior years	-	(6,115)
Group relief claimed	**(62,894)**	-
Total current tax (note 6(a))	-	(91,724)

7 Debtors

	2010 £	2009 £
Due from borrowers	**8,223,694**	6,202,287
Corporation tax repayable	**91,724**	91,724
Other debtors	**164,622**	642,213
Prepayments and accrued income	**128,560**	134,840
	8,608,600	7,071,064

Debtors are shown net of bad debt provisions of £1,165,017 (2009 - £2,142,694) The movement in these provisions of £(977,677) together with the bad debts written off of £1,182,386, 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 Post year end amounts totalling £214,400 were received in relation to these claims

Amounts owed by group undertakings at the year end were £328,005 (2009 - £Nil) These have been provided for in full and therefore no balance is shown above The provision relates to amounts owed by the parent company, Cheval Property Finance Plc, which was placed into administration by its directors on 31 January 2011 This has been treated as an exceptional item within administrative expenses as disclosed in note 3 and on the face of the profit and loss account

8 Creditors amounts falling due within one year

	2010	2009
	£	£
Bank loans	**3,535,075**	3,036,367
Amounts owed to group undertakings	**2,500,000**	100,348
Other creditors	**3,697**	4,356
Accruals and deferred income	**259,573**	228,989
	6,298,345	3,370,060

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 in the company was for a maximum of £9,000,000 Interest was payable at 2 5% per annum above 90 day LIBOR A non-utilisation fee of 0 35% per annum is payable on the difference between the average drawn balance and £9,000,000 This facility is currently available until March 2013 The respective debts of Cheval Property Finance plc and Cheval Bridging Finance Limited to the Clydesdale Bank plc have been cross guaranteed, however since the year end this has been released At the year end the net liability under the facility in the company was £3,213,829 (2009 - £2,220,812)

Included in amounts owed to group undertakings is an amount of £2,500,000 due to Cheval Property Finance Plc Full details of settlement of this debt is disclosed in note 15

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

	2010	2009
	£	£
Bank loans	**3,535,075**	3,036,367

9 Creditors amounts falling due after more than one year

	2010	2009
	£	£
Amounts owed to group undertakings	–	2,500,000

10 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

11 Share capital

Allotted, called up and fully paid:

	2010 No	2010 £	2009 No	2009 £
100 Ordinary shares of £1 each	**100**	**100**	100	100

12 Profit and loss account

	2010 £	2009 £
Balance brought forward	**2,016,459**	2,250,528
Profit/(loss) for the financial year	**614,942**	(234,069)
Balance carried forward	**2,631,401**	2,016,459

13 Reconciliation of movements in shareholder's funds

	2010 £	2009 £
Profit/(loss) for the financial year	**614,942**	(234,069)
Opening shareholder's funds	**2,016,559**	2,250,628
Closing shareholder's funds	**2,631,501**	2,016,559

14 Notes to the cash flow statement

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

	2010 £	2009 £
Operating profit/(loss)	614,194	(329,193)
(Increase)/decrease in debtors	(1,537,536)	5,286,979
(Decrease)/increase in creditors	(69,764)	204,505
Net cash (outflow)/inflow from operating activities	(993,106)	5,162,291
Financing		
Net cash inflow from/(outflow) from bank loans	498,708	(4,419,863)
Net (outflow) from/inflow from other short-term creditors	(659)	700
Net cash inflow from/ (outflow) from financing	498,049	(4,419,163)
Net cash (outflow) from/ inflow from operating activities	(495,057)	743,128

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

	2010 £	2009 £
(Decrease)/increase in cash in the period	(494,309)	746,528
Net cash (inflow) from/outflow from bank loans	(498,708)	4,419,863
Net outflow from/(inflow) from other short-term creditors	659	(700)
	(992,358)	5,165,691
Change in net debt	(992,358)	5,165,691
Net debt at 1 July 2009	(4,725,168)	(9,890,859)
Net debt at 30 June 2010	(5,717,526)	(4,725,168)

(c) Analysis of changes in net debt

	At 1 Jul 2009 £	Cash flows £	At 30 Jun 2010 £
Net cash			
Cash in hand and at bank	815,555	(494,309)	321,246
Debt			
Debt due within 1 year	(3,040,723)	(2,998,049)	(6,038,772)
Debt due after 1 year	(2,500,000)	2,500,000	–
	(5,540,723)	(498,049)	(6,038,772)
Net debt	(4,725,168)	(992,358)	(5,717,526)

15 Post balance sheet events

Included in amounts due from borrowers are loans with a value of £593,750, which were transferred on 1 July 2010 at book value to Cheval Finance Limited, a fellow subsidiary company The properties to which the loans related were subsequently sold outside of the group for £348,128, resulting in a loss of £245,622 being incurred by the fellow subsidiary company

On 2 February 2011 Cheval Property Finance Plc sold the entire share capital of the company to Cheval Holdings Limited On the same day 2,500,000 £1 ordinary shares were issued in order to settle the debt owing to Cheval Property Finance Plc as disclosed in note 8 Subsequently on that day, a resolution was passed by the company to cancel the shares issued

16 Ultimate parent company

Throughout the year the parent company was Cheval Property Finance Plc, which is registered in the United Kingdom On 31 January 2011 the parent company was placed into administration by its directors, and subsequently on 2 February 2011, the entire share capital of Cheval Bridging Finance Limited was sold to Cheval Holdings Limited, a company which is registered in the United Kingdom

The ultimate parent company to 1 February 2011 was Ambition Capital Limited, which is incorporated in Guernsey

The controlling party during the year under review was Volkomen Financiering BV which held the right to appoint the majority of the board of directors of Cheval Property Finance Plc and therefore controlled the day to day running of the company There is no ultimate controlling party from 2 February 2011

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