

Registered number
3709012

Cheval Finance Limited

Report and Accounts

30 June 2003



Cheval Finance Limited
Report and accounts
Contents

	Page
Company information	1
Directors' report	2
Statement of directors' responsibilities	4
Auditors' report	5
Profit and loss account	6
Balance sheet	7
Cash flow statement	8
Notes to the accounts	9

Cheval Finance Limited Company Information

Directors

N C Epstein
B S Hersch
J H Margolis
A H Kay
A S Margolis
J P Wheeler (appointed)
S Cohen
M D Chesler (appointed)
G Key (resigned)

Secretary

N C Epstein

Auditors

Anthony Cowen
1st Floor, Stanmore House
15/19 Church Road
Stanmore
Middlesex HA7 4AR

Bankers

Bank Leumi (UK) Plc
20 Stratford Place
London W1N 9AF

Registered office

2nd Floor, Stanmore House
15/19 Church Road
Stanmore
Middlesex HA7 4AR

Registered number

3709012

Cheval Finance Limited

Directors' Report

The directors present their report and accounts for the year ended 30 June 2003.

Principal activities and review of the business

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

The company used its bank facilities to increase the size of its loan book during the year.

The directors are pleased with the results of the company for the year. Additional facilities have been offered to the company.

Results and dividends

The profit for the year, after taxation, amounted to £697,343. A dividend of £575,000 was paid during the year and the directors do not recommend that a final dividend be paid for the year ended 30 June 2003.

Future developments

The directors are aware that, despite continuing price rises, the outlook for the UK market remains uncertain, as does that for the UK economy as a whole. The sub-prime loan market is growing and competitive pressure is forcing rates downward.

There have been delays in the installation of computer software, and this is currently under review. Once the software has been successfully been installed it is anticipated that this will be of great assistance in the running of the company.

The company has advised the Financial Services Authority of its intention to apply for authorisation to conduct mortgage business. Authorisation will be required in order to conduct business after 31 October 2004. A director of the company, assisted by an outside consultant, has been assigned to ensure that the application is submitted timeously, and that all compliance and regulatory matters will be correctly carried out.

Staff

The directors wish to thank the staff, whose hard work, enthusiasm and skill have enabled the company to continue to prosper.

Payment of creditors

It is the company's policy to settle its invoices within 30 days of receipt. At 30 June 2003 there were no trade creditors as defined by the Companies Act and therefore no calculation of the creditor payment period is necessary.

Cheval Finance Limited

Directors' Report

Directors

The directors who served during the year and their interests in the share capital of the company were as follows:

	£1 Ordinary shares	
	2003	2002
N C Epstein	-	-
B S Hersch	-	-
J H Margolis	-	-
A H Kay	-	-
A S Margolis	-	-
J P Wheeler (appointed)	-	-
S Cohen	-	-
M D Chesler (appointed)	-	-
G Key (resigned)	-	-

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


Post balance sheet events

These are shown in note 15 of the notes to these accounts.

Auditors

A resolution to reappoint Anthony Cowen as auditors will be put to the member at the Annual General Meeting.

This report was approved by the board on 6 January 2004.



J H Margolis
Director

Cheval Finance Limited

Statement of Directors' Responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- follow applicable accounting standards, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining 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 accounts 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.

Cheval Finance Limited

Auditors' Report

Independent auditors' report to the shareholder of

We have audited the accounts of Cheval Finance Limited for the year ended 30 June 2003 which comprise pages 6 to 12. These accounts 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 accounts in accordance with applicable law and United Kingdom Accounting Standards.

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

We report to you our opinion as to whether the accounts 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 accounts, 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.

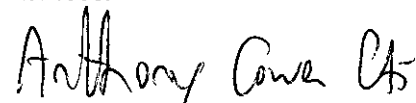
Basis of audit opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 30 June 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Anthony Cowe

Chartered Accountants and Registered Auditors

1st Floor, Stanmore House
15/19 Church Road
Stanmore
Middlesex HA7 4AR

6 January 2004

Cheval Finance Limited
Profit and Loss Account
for the year ended 30 June 2003

	Notes	2003 £	2002 £
Turnover	2	2,033,671	1,423,916
Cost of sales	2	(979,429)	(686,497)
Gross profit		<u>1,054,242</u>	<u>737,419</u>
Administrative expenses		(58,039)	(403,372)
Operating profit	3	<u>996,203</u>	<u>334,047</u>
Profit on ordinary activities before taxation		<u>996,203</u>	<u>334,047</u>
Tax on profit on ordinary activities	4	(298,860)	(100,215)
Profit for the financial year		<u>697,343</u>	<u>233,832</u>
Dividends:			
ordinary dividend on equity shares	5	(575,000)	(280,000)
Retained profit/(loss) for the financial year	9	<u>122,343</u>	<u>(46,168)</u>

Continuing operations

None of the company's activities were acquired or discontinued during the above two financial years.

Statement of total recognised gains and losses

The company has no recognised gains or losses other than the profit for the above two financial years.

Cheval Finance Limited
Balance Sheet
as at 30 June 2003

	Notes	2003 £	2002 £
Current assets			
Debtors	6	8,250,508	6,660,811
Cash at bank and in hand		<u>324,438</u>	<u>775,782</u>
		8,574,946	7,436,593
Creditors: amounts falling due within one year			
	7	<u>(8,445,586)</u>	<u>(7,429,576)</u>
Net current assets			
		129,360	7,017
		<u>129,360</u>	<u>7,017</u>
Capital and reserves			
Called up share capital	8	100	100
Profit and loss account	9	129,260	6,917
Shareholder's funds:			
Equity		<u>129,360</u>	<u>7,017</u>
	10	<u>129,360</u>	<u>7,017</u>



B S Hersch
Director

Approved by the board on 6 January 2004

Cheval Finance Limited
Cash Flow Statement
for the year ended 30 June 2003

	Notes	2003 £	2002 £
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		996,203	334,047
Increase in debtors		(1,589,697)	(3,287,819)
(Decrease)/increase in creditors		(177,267)	2,989,788
Net cash (outflow)/inflow from operating activities		<u>(770,761)</u>	<u>36,016</u>
CASH FLOW STATEMENT			
Net cash (outflow)/inflow from operating activities		(770,761)	36,016
Taxation		(97,914)	(74,716)
		<u>(868,675)</u>	<u>(38,700)</u>
Equity dividends paid	11	<u>(575,000)</u>	<u>(280,000)</u>
		(1,443,675)	(318,700)
Decrease in cash		<u>(1,443,675)</u>	<u>(318,700)</u>
Reconciliation of net cash flow to movement in net debt			
Decrease in cash in the period		(1,443,675)	(318,700)
Change in net debt	12	<u>(1,443,675)</u>	<u>(318,700)</u>
Net debt at 1 July		<u>(1,761,032)</u>	<u>(1,442,332)</u>
Net debt at 30 June		<u>(3,204,707)</u>	<u>(1,761,032)</u>

Cheval Finance Limited
Notes to the Accounts
for the year ended 30 June 2003

1 Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

2 Turnover / Cost of sales

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 funder's loans and bank overdrafts together with direct costs of recovery. Interest paid on bank overdrafts amounted to £197,501 (2002: £136,414)

3 Operating profit	2003 £	2002 £
This is stated after charging:		
Auditors' remuneration	<u>3,480</u>	<u>3,900</u>

4 Taxation	2003 £	2002 £
UK corporation tax at 30%	<u>298,860</u>	<u>100,215</u>

5 Equity dividends	2003 £	2002 £
Equity dividends on ordinary shares - interim paid	<u>575,000</u>	<u>280,000</u>

Cheval Finance Limited
Notes to the Accounts
for the year ended 30 June 2003

6 Debtors	2003	2002
	£	£
Due from borrowers	7,811,452	6,594,210
Due from related companies	353,448	-
Prepayments and accrued income	85,608	66,601
	<u>8,250,508</u>	<u>6,660,811</u>

The amount due from borrowers is secured by legal charges held over land and buildings.

7 Creditors: amounts falling due within one year	2003	2002
	£	£
Bank loans and overdrafts	3,529,145	2,536,814
Due to related companies	4,181,551	4,414,438
Corporation tax	244,380	43,434
Accruals	490,510	434,890
	<u>8,445,586</u>	<u>7,429,576</u>

The bank overdraft is secured by a debenture held over the assets of the company. It is repayable on demand and interest is charged at 2% above bank base rate. The overdraft is guaranteed by the parent company and partly guaranteed by directors, N C Epstein and J H Margolis.

8 Share capital	2003	2002
	£	£
Authorised:		
Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

	2003	2002	2003	2002
	No	No	£	£
Allotted, called up and fully paid:				
Ordinary shares of £1 each	100	100	<u>100</u>	<u>100</u>

Cheval Finance Limited
Notes to the Accounts
for the year ended 30 June 2003

9 Profit and loss account	2003	2002
	£	£
At 1 July	6,917	53,085
Retained profit/(loss)	122,343	(46,168)
At 30 June	<u>129,260</u>	<u>6,917</u>

10 Reconciliation of movement in shareholder's funds	2003	2002
	£	£
At 1 July	7,017	53,185
Profit for the financial year	697,343	233,832
Dividends	(575,000)	(280,000)
At 30 June	<u>129,360</u>	<u>7,017</u>

11 Gross cash flows	2003	2002
	£	£
Equity dividends paid	<u>575,000</u>	<u>280,000</u>

12 Analysis of changes in net debt	At 1 Jul 2002 £	Cash flows £	Non-cash changes £	At 30 Jun 2003 £
Cash at bank and in hand	775,782	(451,344)		324,438
Overdrafts	(2,536,814)	(992,331)		(3,529,145)
		<u>(1,443,675)</u>		
Total	<u>(1,761,032)</u>	<u>(1,443,675)</u>	<u>-</u>	<u>(3,204,707)</u>

Cheval Finance Limited
Notes to the Accounts
for the year ended 30 June 2003

13 Related parties / staff costs

The company does not directly employ staff. Staff costs, including the directors salaries, are paid by the parent company and this information is disclosed in their accounts.

Funding from the ultimate parent company is subject to interest payable at the rate of 15% per annum. Interest of £378,080 (2002: £530,063) has been provided in these accounts and will be paid within 12 months of the year end.

14 Controlling party / ultimate parent company

The company's parent company is Cheval Property Finance plc, (company no: 3131133) which is registered in the United Kingdom. The ultimate controlling parent company is Cheval Group Holdings Limited which is incorporated in the British Virgin Islands.

The ultimate controlling party is Mr Mark Sieff.

15 Post balance sheet events

The company has had to spend £54,600, since the year end to date, on building works and professional fees on property secured over one of its borrowers. It is anticipated that a further spend in the region of £129,000 will be required by the company before the property can be sold and the loan advanced repaid to the company. The time scale is expected to be approximately 5 months. The company expects to recover in full the capital advanced together with costs incurred. However a provision for all the interest receivable on the loan has been made at this stage.