

Proton Finance Limited

Registered number 519068

Report and Accounts 2005



Member of Lloyds TSB Group

Contents

Company information 2

Directors’ report..... 3

Report of the independent auditors 5

Income statement..... 6

Balance sheet 7

Statement of changes in equity 8

Cash flow statement..... 9

Notes to the financial statements 10

Company information

Directors

Directors	BF Abdul Rahim
	BJ Collier
	JL Davies
	S W Green
	S C Ng
	AS Park
	DJ Stehr
	S Z A Syed Mohamed Tahir
	J Woolley
	T Wylie

Secretary	MP Kilbee
-----------	-----------

Proton Finance Limited is a limited company registered in England No: 519068 and is both incorporated and domiciled in England.

Registered office

116 Cockfosters Road
Barnet
Hertfordshire
EN4 0DY

Directors' report

For the year ended 31 December 2005

The directors present their report and the audited financial statements for the year ended 31 December 2005.

Principal activities

The principal activity of Proton Finance Limited (the "Company") is the provision of instalment finance including leasing.

Review of business and future developments

The business has performed in line with expectations during the period. There are no expected changes in the nature and extent of the Company's operations and the directors envisage that it will continue to perform satisfactorily.

Financial risk management

Responsibility for the control of overall risk within the Company lies with the board of directors. See note 2.

Dividends

No dividend is proposed to be paid for the year (2004: £nil)

Directors and their interests

The names of the current directors are shown on page 2.

The following changes have taken place during the year and since the year end:

B F Abdul Rahim	(appointed 20 January 2006)
S W Green	(resigned 20 January 2006, appointed alternate director to SC Ng 20 January 2006)
SC Ng	(appointed 20 January 2006)
AS Park	(resigned 20 January 2006 appointed alternate director to BJ Collier and S Z A Syed Mohamed Tahir 20 January 2006)
PJ Stones	(resigned 31 March 2006)
S Z A Syed Mohamed Tahir	(appointed 20 January 2006)
J Woolley	(appointed alternate director to PJ Stones on 23 June 2005 and full director 31 March 2006)
T Wylie	(appointed 4 September 2006)

J L Davies is also a director of Lloyds TSB Asset Finance Division Limited and his interests in the capital of Lloyds TSB Group plc and its subsidiaries are set out in the accounts of that company.

The interests of the other directors in office at 31 December 2005 in the capital of Lloyds TSB Group plc and its subsidiaries were:

	At 31 December 2005		Options granted during year	At 1 January 2005	
	Shares	Options		Shares	Options
SW Green	2,090	-	-	2,090	-
DJ Stehr	15,217	17,186	-	14,139	17,186
PJ Stones	8,819	105,916	18,595	7,371	87,321
J Woolley	22,983	14,489	-	22,496	14,489

The interests at 1 January 2005 shown above have been restated to reflect adjustments notified after the year end.

The other director had no interest in the capital of Lloyds TSB Group plc or its subsidiaries.

Directors' report

For the year ended 31 December 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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 International Financial Reporting Standards (IFRS) as adopted by the European Union have been followed; subject to any material departures disclosed 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 which 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.

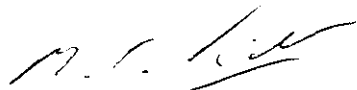
Policy and practice on payment of creditors

The Company follows "The Better Payment Practice Code" published by the Department of Trade and Industry, regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from The DTI Publications Order Line 0870-1502500 quoting ref. URN 04/606.

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

As the Company owed no amounts to trade creditors as at 31 December 2005, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985, is nil (2004: nil).

By order of the Board



M P Kilbee
Company Secretary
31st October 2006

Report of the independent auditors to the members of Proton Finance Limited

We have audited the financial statements of Proton Finance Limited for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been 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 other transactions is not disclosed.

We read the Directors' Report and consider its implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

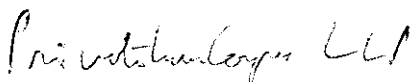
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2005 and of its profit and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

One Kingsway
Cardiff
CF10 3PW

20 October 2006

Income statement

Income statement for the year ended 31 December 2005

	Note	2005 £	2004 £
Interest and similar income		4,252,421	4,582,139
Interest expense and similar charges		(1,486,261)	(1,624,715)
Net interest income	4	<u>2,766,160</u>	<u>2,957,424</u>
Fee and commission income	5	273,794	327,651
Other operating expenses	6	(1,845,957)	(2,253,191)
Operating profit	7	<u>1,193,997</u>	<u>1,031,884</u>
Taxation	10	(374,841)	(342,962)
Profit for the year attributable to equity share holders		<u>819,156</u>	<u>688,922</u>

All operations are continuing.

The notes on pages 10 to 21 are an integral part of these financial statements.

Balance sheet


Balance sheet at 31 December 2005

	Note	2005 £	2004 £
ASSETS			
Cash and cash equivalents		-	193,985
Loans and advances to customers	11	35,734,225	38,624,804
Other current assets	12	239,571	2,975,032
Deferred tax assets	15	91,800	110,059
Total assets		36,065,596	41,903,880
LIABILITIES			
Borrowed funds	13	28,578,202	34,916,775
Other current liabilities	14	208,365	354,454
Current tax liabilities		292,379	329,492
Total liabilities		29,078,946	35,600,721
EQUITY			
Share capital	16	20,000	20,000
Retained profits		6,966,650	6,283,159
Total equity		6,986,650	6,303,159
Total equity and liabilities		36,065,596	41,903,880

The notes on pages 10 to 21 are an integral part of these financial statements.

The financial statements on pages 6 to 21 were approved by the Board of Directors on
signed on its behalf by:

2006 and were


DJ Stehr
Director
31st October 2006

Statement of changes in equity

31 December 2005

	Share capital £	Retained profits £	Total £
Previously reported balance at 1 January 2004	20,000	5,751,904	5,771,904
Prior year adjustment – IFRS adoption	-	(157,667)	(157,667)
Adjusted balance at 1 January 2004	20,000	5,594,237	5,614,237
Profit for the year	-	688,922	688,922
At 31 December 2004	20,000	6,283,159	6,303,159
Adjustment on transition to IAS 32/39	-	(135,665)	(135,665)
Adjusted balance at 1 January 2005	20,000	6,147,494	6,167,494
Profit for the year	-	819,156	819,156
At 31 December 2005	20,000	6,966,650	6,986,650

The minority shareholder has a 49.99% interest in total gains in the year.

The notes on pages 10 to 21 are an integral part of these financial statements.

Cash flow statement

Cash flow statement for the year ended 31 December 2005

	2005 £	2004 £
Cash flows from operating activities		
Profit before tax	1,193,997	1,031,884
Adjustments for:		
- Interest payable	1,486,261	1,624,715
Changes in operating assets and liabilities:		
- net decrease in loans and advances to customers	2,696,771	2,670,250
- net decrease/(increase) in other assets	2,735,461	(2,549,669)
- net decrease in other liabilities	(146,089)	(438,800)
Cash generated from operations	7,966,401	2,338,380
Interest paid	(1,486,261)	(1,624,715)
Taxes paid via group relief	(335,552)	(10,958)
Net cash from operating activities	6,144,588	702,707
Cash flows from financing activities		
Repayment of borrowed funds	(6,345,868)	(930,460)
Net cash outflow from financing activities	(6,345,868)	(930,460)
Net decrease in cash and cash equivalents	(201,280)	(227,753)
Cash and cash equivalents at beginning of year	193,985	421,738
(Overdraft)/Cash and cash equivalents at end of year	(7,295)	193,985

The notes on pages 10 to 21 are an integral part of these financial statements.

Notes to the financial statements

31 December 2005

1. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.1 Basis of preparation

The Company's ultimate parent company adopted International Financial Reporting Standards ("IFRS") as adopted by the European Union in its financial statements for the year ended 31 December 2005. The Company has also adopted IFRS in the preparation of these financial statements for the year ended 31 December 2005. The financial statements have been prepared under the historical cost convention. A summary of the more important accounting policies is set out below.

The rules for first time adoption of IFRS are set out in IFRS 1 'First-time Adoption of International Financial Reporting Standards'. On 1 January 2004, the date of transition, the opening IFRS balance sheet position has been determined in accordance with IFRS 1 which requires IFRS accounting policies to be applied on a retrospective basis with certain exceptions and exemptions detailed below.

Mandatory exception	Impact
Estimates	The Company's estimates at the date of transition are consistent with those under UK GAAP.
Voluntary exemption	
Comparatives for financial instruments and designation of financial assets	The Company has chosen not to restate comparatives for IAS 32 and IAS 39, but to reflect the impact of these standards through adjustments to shareholders' equity as at 1 January 2005. The Company has applied UK GAAP to financial instruments for its 2004 comparatives.
Share based payments	The Company has elected to apply IFRS 2 to equity instruments that were granted before 7 November 2002

The disclosures required by IFRS1 concerning the transition from UK GAAP to IFRS are given in note 19. The effects of the changes in accounting policy due to conversion to IFRS are disclosed in the Statement of Changes in Equity.

1.2 Income recognition

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments, including loans and advances, using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the agreement but not future credit losses. The calculation includes all amounts received or paid by the Company that are an integral part of the overall return such as acceptance and, where relevant, early settlement fees as well as direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

1.3 Fee and commission income and expense

Fees and commissions which are not an integral part of the effective interest rate such as commission associated with the sale of insurance underwritten by a third party are generally recognised on an accruals basis when the service has been provided.

Notes to the financial statements

31 December 2005

1.4 Financial assets

All of the Company's financial assets are classified as loans and advances to customers at initial recognition.

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and advances to customers are accounted for at amortised cost using the effective interest method. Loans and advances are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs. Loans and advances are derecognised when the rights to receive cash flows from them have expired or where the Group has transferred substantially all risks and rewards of ownership.

1.5 Impairment of financial assets

At each balance sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or other financial reorganisation or the debt being restructured to reduce the burden on the borrower.

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cash flows discounted at that asset's original effective interest rate. If an asset has a variable interest rate, the discount rate used for measuring the impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised asset or group of assets reflects the cash flows that may result from foreclosure less the costs of obtaining and selling the collateral, whether or not foreclosure is probable.

If there is no objective evidence of individual impairment the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Future cash flows are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The method and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between the loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the provision is adjusted and the amount of the reversal is recognised in the income statement.

When a loan or advance is uncollectible, it is written off against the related provision once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the income statement.

1.6 Leases

Lease agreements are classified as finance leases if the lease agreements transfer substantially all of the risks and rewards of ownership to the lessee; all other leases are classified as operating leases.

When assets are held subject to a finance lease or hire purchase contract, the present value of the lease payments is recognised as a receivable within loans and advances to customers. Finance lease income, comprising interest together with non-contingent contractual fees, is recognised over the term of the lease using the effective interest rate method (before tax).

1.7 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition.

Notes to the financial statements

31 December 2005

1.8 Taxation, including deferred income taxes

Current tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. The tax effect of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.9 Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are paid.

1.10 Pensions

Defined contribution

The Company participates in a defined contribution plan operated by Lloyds TSB Asset Finance Division Limited. Contributions payable to the plan by the Company are included in the profit and loss account for period to which they relate.

Defined benefit

Qualifying employees are members of the Lloyds TSB Asset Finance Division Pension Scheme. The majority of the active members of this scheme are employed by other companies in the Group. Accordingly, in substance most of the risk associated with the operation of the Scheme lies with these companies and the Company has accounted for the Scheme as a defined contribution scheme.

1.11 Share based payments

Charges in connection with employees participation in share based payment schemes operated by the Company's ultimate parent company are borne by the parent company. It is not practicable for the Company to provide information for these schemes, including information regarding the ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life information and the number of options outstanding, that is specific to the Company's employees without incurring significant additional cost.

Full details for the schemes overall, including the ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life information and number of options outstanding, can be found in the 2005 annual report and accounts of the Company's ultimate parent company.

2 Risk management policy

The Company's operations expose it to credit risk, liquidity risk and interest rate risk; it is not exposed to any significant foreign exchange risk. Responsibility for the control of overall risk lies with the Board of Directors, operating within a management framework established by the intermediate parent, Lloyds TSB Asset Finance Division Limited, and the ultimate parent, Lloyds TSB Group plc. The interest rate and liquidity risk faced by the Company is in substance managed and borne by other group companies which fund the Company and credit risk is carefully monitored by Asset Finance Division credit committees and credit functions.

2.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date.

The credit risk associated with instalment credit contracts is managed through the application of strict underwriting criteria, determined by the Lloyds TSB Asset Finance Division Limited credit committee and credit functions. Significant credit exposures are measured and reported on a regular basis.

Notes to the financial statements

31 December 2005

2.2 Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates which can result in a fair value and a cash flow risk. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Lloyds TSB Asset Finance Division Board of Directors sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored regularly.

3 Critical accounting estimates, and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Impairment on assets accounted for at amortised cost

The Company regularly reviews its loan portfolios to assess for impairment. In determining whether an impairment has occurred the Company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows and their timings; such observable data includes whether there has been an adverse change in the payment status of borrowers or changes in economic conditions that correlate with defaults on assets in the Company.

The methodology used to calculate the required impairment provisions are calculated collectively using formulae which take into account factors such as the length of time that the customer's account has been delinquent, historical loss rates and the value of any collateral held in order to determine expected future cash flows. The variables used in the formulae are kept under regular review to ensure that as far as possible they reflect the current economic circumstances, although actual experience may differ from that assumed.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4 Net interest income

	2005 £	2004 £
Interest income		
Loans and advances to customers	395,929	475,687
Lease and hire purchase receivable	3,856,492	4,106,452
	-----	-----
	4,252,421	4,582,139
	=====	=====
Interest expense		
Group interest expense	1,486,261	1,624,715
	=====	=====
Net interest income	2,766,160	2,957,424
	=====	=====

Included within interest income in 2005 is £102,669 in respect of impaired financial assets.

The average effective interest rate in 2005 was 10.95% for lease and hire purchase and 7.16% for other loans and advances.

5 Fee and commission income

	2005 £	2004 £
Fee and commission income		
Commission receivable	273,794	327,651
	=====	=====

Notes to the financial statements

31 December 2005

6 Other operating expenses

	2005 £	2004 £
Staff costs (note 8)	398,136	483,184
Impairment losses on loans and advances	294,465	442,024
Other administrative expenses	707,592	837,254
Management Fees (see note 17)	445,764	490,729
	-----	-----
	1,845,957	2,253,191
	=====	=====

7 Operating profit

The following items have been included in arriving at operating profit:

	2005 £	2004 £
Income		
Aggregate rentals receivable:		
- From hire purchase contracts	3,846,881	4,092,717
- From finance lease contracts	9,611	13,735
- From loans and advances to customers	395,929	475,687
Expenses		
Audit services		
- Statutory audit	10,836	10,572

8 Staff costs

	2005 £	2004 £
Wages and salaries	297,058	389,222
Social security costs	22,227	21,461
Pension costs	78,851	72,501
	-----	-----
	398,136	483,184
	=====	=====

The average number of persons employed by the Company during the year was 8 (2004: 8).

9 Directors' emoluments

No director received any fees or emoluments during the year in connection with services provided to the Company (2004: £nil). The directors are employed by other companies in either the Lloyds TSB Group or the Proton Group and consider that their duties to the Company are incidental to their other activities.

Notes to the financial statements

31 December 2005

10 Taxation

	2005 £	2004 £
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on profits for the year	292,379	329,492
- Adjustments in respect of prior years	6,060	10,958
	-----	-----
Current tax charge	298,439	340,450
Deferred tax	75,962	2,512
Deferred tax in respect of prior years	440	-
	-----	-----
	374,841	342,962
	-----	-----

The charge for tax on the profit for the year is based on a UK corporation tax rate of 30 per cent (2004: 30 per cent).

b) Factors affecting the tax charge for the year

A reconciliation of the charge that would result from applying the standard UK corporation tax rate to profit before tax to the tax charge for the year is given below:

	2005 £	2004 £
Profit before tax	1,193,997	1,031,884
Tax charge thereon at UK corporation tax rate of 30%	358,199	309,565
Factors affecting charge:		
- Non-allowable and non-taxable items	10,142	22,439
- Prior year charge	6,500	10,958
	-----	-----
Tax on profit on ordinary activities	374,841	342,962
	=====	=====
Effective rate	31%	33%
	=====	=====

Notes to the financial statements

31 December 2005

11 Loans and advances to customers

	2005 £	2004 £
Advances under finance lease and hire purchase contracts	31,983,633	34,485,875
Other loans and advances to customers	5,374,627	5,682,205
	<u>37,358,260</u>	<u>40,168,080</u>
Gross loans and advances to customers		
Less: allowance for losses on loans and advances	(1,624,035)	(1,543,276)
	<u>35,734,225</u>	<u>38,624,804</u>
Loans and advances to customers, net	=====	=====
of which:		
Due within one year	19,031,623	20,117,160
Due after more than one year	16,702,602	18,507,644
	<u>35,734,225</u>	<u>38,624,804</u>
	=====	=====

Loans and advances to customers include hire purchase and finance lease receivables:

	2005 £	2004 £
Gross investment in hire purchase and finance lease contracts, receivable:		
- no later than one year	16,516,203	17,668,722
- later than one year and no later than five years	19,938,073	22,019,149
- later than five years	260,917	223,665
	<u>36,715,193</u>	<u>39,911,536</u>
Unearned future finance income on hire purchase and finance lease contracts	(4,731,560)	(5,425,661)
	<u>31,983,633</u>	<u>34,485,875</u>
Net investment in hire purchase and finance lease contracts	=====	=====
The net investment in hire purchase and finance lease contracts may be analysed as follows:		
- no later than one year	14,387,727	15,266,797
- later than one year and no later than five years	17,368,614	19,025,818
- later than five years	227,292	193,260
	<u>31,983,633</u>	<u>34,485,875</u>
	=====	=====

12 Other current assets

	2005 £	2004 £
Amounts owed by group undertakings (see note 17)	-	2,635,768
Other debtors	239,571	339,264
	<u>239,571</u>	<u>2,975,032</u>
	=====	=====

13 Borrowed funds

	2005 £	2004 £
Borrowings from group undertakings (see note 17)	28,570,907	34,916,775
Bank overdraft	7,295	-
	<u>28,578,202</u>	<u>34,916,775</u>
	=====	=====

Amounts due to group undertakings are unsecured, repayable on demand and generally interest bearing.
Variable rates based on LIBOR were charged during the year.

Notes to the financial statements

31 December 2005

14 Other current liabilities

	2005	2004
	£	£
Other creditors	190,703	204,816
Accruals	17,662	149,638
	-----	-----
	208,365	354,454
	=====	=====

15 Deferred tax

The movement in the net deferred tax asset is as follows:

	2005	2004
	£	£
Restated at 1 January after transition to IFRS (note 19)	110,059	112,571
Adjustment on implementation of IAS 32 & IAS39	58,143	-
	-----	-----
At 1 January as restated	168,202	112,571
Income statement charge	(76,402)	(2,512)
	-----	-----
At 31 December	91,800	110,059
	=====	=====

The deferred tax charge in the income statement comprises the following temporary differences:

	2005	2004
	£	£
Accelerated capital allowances	7,032	10,000
Other temporary differences	69,370	-
Allowances for impairment losses	-	(7,488)
	-----	-----
	76,402	2,512
	=====	=====

Deferred tax assets and liabilities are comprised as follows:

	2005	2004
	£m	£m
Deferred tax assets		
- Accelerated capital allowances	27,968	35,000
- Allowance for impairment losses	42,022	-
- Other temporary differences	21,810	75,059
	-----	-----
	91,800	110,059
	=====	=====

Notes to the financial statements

31 December 2005

16 Share capital

	2005 £	2004 £
Authorised, allotted, issued and fully paid		
9,999 "A" ordinary shares of £1 each	9,999	9,999
10,001 "B" ordinary shares of £1 each	10,001	10,001
	-----	-----
	20,000	20,000
	=====	=====

The "A" ordinary shares carry the right to appoint the chairman and secretary of the Company but, in all other respects, rank pari passu with the "B" ordinary shares.

The immediate parent company is United Dominions Trust Limited. The company regarded by the directors as the ultimate parent company is Lloyds TSB Group plc, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Lloyds TSB Bank plc is the parent undertaking of the smallest such group of undertakings.

17 Related party transactions

United Dominions Trust Limited and Proton Cars (UK) Limited hold 50.01% and 49.99% of the shares in the Company respectively. The ultimate parent of the Company is Lloyds TSB Group plc (incorporated in Scotland). Copies of the ultimate parent company's 2005 annual report and accounts may be obtained from the Company Secretary's Department, Lloyds TSB Group plc, 25 Gresham Street, London, EC2V 7HN.

A number of transactions are entered into with related parties in the normal course of business. These include loans, fees and commission transactions. The outstanding balances at the year end, and related expense and income for the year are as follows:

	Group and associated companies	
	2005 £	2004 £
Outstanding at 31 December		
Amounts due to Black Horse Limited	1,013,064	1,505,937
Amounts due from United Dominions Trust Limited	-	(2,627,136)
Amounts due to Lloyds UDT Limited	27,557,843	368,506
Amounts due to Lloyds TSB Asset Finance Division	-	33,042,332
Amounts due from Shogun	-	(132)
Amounts due from Hyundai	-	(8,500)
	=====	=====
Interest Payable		
United Dominions Trust Limited	-	34,311
Lloyds TSB Asset Finance Division	1,486,261	1,590,404
	=====	=====
Management Charges		
Black Horse Limited	445,764	-
Lloyds UDT Limited	-	490,729
	=====	=====

Key management personnel

Key management personnel are those persons having authority and responsibility for planning and controlling the activities of the Company. Accordingly, key management comprise the directors of the Company and the members of the Lloyds TSB Asset Finance Division board which comprises the statutory directors of that company and certain other senior management. There were no transactions between the Company and key management personnel during the current or preceding year. Key management personnel are employed by other Companies within the Lloyds TSB Asset Finance Division Limited sub group or within the Proton organisation and consider that their services to the Company are incidental to their other activities.

18 Contingent liabilities and commitments

There were no contracted capital commitments or contingencies at the balance sheet date (2004:£nil).

Notes to the financial statements

31 December 2005

19 Reconciliation of net assets and profit under UK GAAP to IFRS

Proton Finance Limited reported under UK GAAP in its previously published financial statements for the year ended 31 December 2004.

The analysis below shows a reconciliation of net assets and profit as reported under UK GAAP as at 31 December 2004 to the revised net assets and profit under IFRS as reported in these financial statements.

In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for this Company, being 1 January 2004 and at 1 January 2005, the date at which the IAS 32 and IAS 39 adjustments have been reflected.

	2004 £
Reconciliation of profit for the year ended 31 December 2004	
Profit for the year reported under UK GAAP	706,395
IAS 17 – Leasing: origination costs	(190)
IAS 17 – Leasing : acceptance fees	(17,283)

Profit after tax reported under IFRS	688,922
	=====

Reconciliation of equity at 1 January 2004 (date of transition to IFRS)

	UK GAAP £	Effect of transition to IFRS £	IFRS £
ASSETS			
Cash and cash equivalents	421,738	-	421,738
Loans and advances to customers	41,520,292	(225,238)	41,295,054
Deferred income tax assets	45,000	67,571	112,571
Other current assets	425,363	-	425,363
	-----	-----	-----
Total assets	42,412,393	(157,667)	42,254,726
	=====	=====	=====
LIABILITIES			
Borrowed funds	35,847,235	-	35,847,235
Other current liabilities	793,254	-	793,254
	-----	-----	-----
Total liabilities	36,640,489	-	36,640,489
NET EQUITY			
Share capital	20,000	-	20,000
Retained profits	5,751,904	(157,667)	5,594,237
	-----	-----	-----
Total equity	5,771,904	(157,667)	5,614,237
	-----	-----	-----
Total equity and liabilities	42,412,393	(157,667)	42,254,726
	=====	=====	=====

Notes to the financial statements

31 December 2005

19 Reconciliation of net assets and profit under UK GAAP to IFRS (continued)

Reconciliation of equity at 31 December 2004 and 1 January 2005

	UK GAAP £	Effect of transition to IFRS £	IFRS 31/12/2004 £	Effect of IAS 32/39 £	IFRS 01/01/2005 £
ASSETS					
Cash and cash equivalents	193,985	-	193,985	-	193,985
Loans and advances to customers	38,875,003	(250,199)	38,624,804	(193,808)	38,430,996
Other current assets	2,975,032	-	2,975,032	-	2,975,032
Deferred tax assets	35,000	75,059	110,059	58,143	168,202
Total assets	42,079,020	(175,140)	41,903,880	(135,665)	41,768,215
LIABILITIES					
Other borrowed funds	34,916,775	-	34,916,775	-	34,916,775
Other current liabilities	354,454	-	354,454	-	354,454
Current income tax liabilities	329,492	-	329,492	-	329,492
Total liabilities	35,600,721	-	35,600,721	-	35,600,721
EQUITY					
Share capital	20,000	-	20,000	-	20,000
Retained profits	6,458,299	(175,140)	6,283,159	(135,665)	6,147,494
Total equity	6,478,299	(175,140)	6,303,159	(135,665)	6,167,494
Total equity and liabilities	42,079,020	(175,140)	41,903,880	(135,665)	41,768,215

Explanation of reconciling items between UK GAAP and IFRS

	£
Net equity at 1 January 2004	
Lease initial direct costs	4,384
Lease acceptance fees	(229,622)
Dividend	67,571
	(157,667)
Net equity at 31 December 2004	
Lease initial direct costs	4,112
Lease acceptance fees	(254,311)
Dividend	75,059
	(175,140)
Net equity at 1 January 2005	
Loan initial direct costs	1,920
Loan acceptance fees	(122,273)
Loan early settlement income	66,620
Impairment	(81,932)
	(135,665)

Accounting for leases in accordance with IAS 17 is different from SSAP 21. The main differences are that the direct costs incurred by the lessor should be added to the carrying value of the leased asset, whereas all direct costs were recognised at the inception of the lease under SSAP 21.

Acceptance fees are spread by the effective interest rate method in accordance with IAS 17 whereas previously they were recognised at inception. The tax effect of the IAS 17 adjustment is reflected in the charge for deferred tax.

Notes to the financial statements

31 December 2005

IAS 39 requires that the direct costs incurred by the lender should be added to the carrying value of the loan whereas all direct costs were previously recognised at inception. Similarly, acceptance fees and early settlement income is spread using the effective interest method. In addition, the IAS impairment methodology includes the *recognition of potential losses included in the up to date book and of the effect of discounting.*

Under IFRS, equity dividends declared and authorised after the balance sheet may not be included as a liability at the balance sheet date.