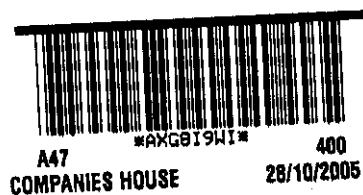


# **Prospect Heights (Holdings) Limited**

## **ANNUAL REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED 31 DECEMBER 2004**

**Company Registered Number  
2974740**



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## **Directors' report**

The directors present their annual report together with the audited financial statements of the Group for the year ended 31 December 2004.

### **Principal activities**

The principal activity of the Company is to act as the holding company of companies involved in the acquisition and servicing of Personal Loans and Credit Card receivables. These loans and receivables are principally financed by the issue of medium term debt raised on the Eurobond market and by the issue of discounted notes. However, on 20 December 2004 any Personal Loans and Credit Card receivables in which Winkfield Funding plc had an interest in were sold to HFC Bank Limited and all funding relating to this company was repaid.

### **Financial results**

The Group made a profit for the financial year of £34,258 (2003: £33,730) which has been taken to reserves. The directors do not recommend the payment of a dividend (2003: £nil).

### **Business review**

The directors believe the current levels of activity will diminish in the foreseeable future as Prospect 1 plc, Prospect 2 plc, Prospect 3 plc, Winkfield Funding plc and Opus Series 1 plc have now ceased to trade. On 25 February 2005 all Prospect 4 plc Personal Loan receivables were sold to HFC Bank Limited, and all outstanding debt was repaid. On 17 October 2005 all Prospect 6 (Jersey) Limited Personal Loan receivables were sold to HFC Bank Limited, and all outstanding debt was repaid.

### **Directors and their interests**

The directors who served during the year are as follows

B D Needham - Resigned 27 August 2004  
P M Hills - Deceased 12 December 2004  
Capita Trust Company Limited - Appointed 27 August 2004  
F L Newell  
C J Rivers - Alternate to F L Newell

None of the directors had at any time during the year any disclosable interest in the shares of the Company or any other companies within the Group.

### **Secretary**

C J Rivers

### **Payment of creditors**

It is the policy of the Company to pay for goods or services received, invoiced and not in dispute within the payment terms we have agreed with our suppliers or on pre-determined payment dates. Where no payment terms have been agreed for goods or services, payment typically occurs within 60 days of receipt of the invoice. All other creditors result in trade creditor days for the Company as at 31 December 2004 of zero days (2003: zero days), calculated in accordance with the requirements set down in the Companies Act 1985 and its regulations. This represents the ratio, expressed in days, between the amount due to suppliers at the end of the year by the Company and the amount invoiced by suppliers in the period.

### **Auditors**

The Company, having passed in General Meeting an elective resolution in accordance with section 379A Companies Act 1985 (as amended) to dispense with the obligation to appoint auditors annually as permitted by section 386 Companies Act 1985, KPMG Audit Plc shall be deemed to be re-appointed as auditors to the Company for the next financial year.

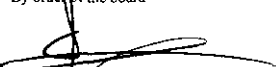
### **Statement of Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss 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 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 Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

By order of the board



C J Rivers  
Secretary

North Street  
Winkfield  
Windsor  
Berkshire SL4 4TD

21st October 2005

## Independent Auditors' Report to the members of Prospect Heights (Holdings) Limited

We have audited the financial statements on pages 4 to 15.

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**

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
8 Salisbury Square  
London  
EC4Y 8BB

27 October

2005

**Consolidated profit and loss account**

For the year ended 31 December

	Notes	Continuing Operations 2004 £	Continuing Operations 2003 £
Turnover	2	16,754,299	35,105,954
Interest receivable	3	20,159,948	19,378,617
Interest payable	4	(29,195,702)	(37,881,676)
Other income		6,664,125	9,573,499
Administrative expenses	5	(14,337,073)	(26,131,313)
<b>Operating profit and profit on ordinary activities before taxation</b>	6	<b>45,597</b>	<b>45,081</b>
Taxation	7	(11,339)	(11,351)
<b>Profit for the financial year</b>	15	<b>34,258</b>	<b>33,730</b>

The only recognised gains or losses in the current and prior accounting period are those disclosed in the profit and loss account.

The notes on pages 8 to 15 form an integral part of these consolidated financial statements.

**Consolidated balance sheet**

As at 31 December

	Notes	2004 £	2003 £
<b>Fixed assets</b>			
Investment in notes issued by Windsor Investor 1 (Jersey) Limited	8	399,691,716	399,474,103
<b>Current assets</b>			
Personal loans and credit card receivables - due within 1 year	9	54,456,205	50,419,977
Personal loans and credit card receivables - due after more than 1 year	9	32,845,215	181,769,221
Debtors	10	2,640,257	5,014,405
Cash at bank and in hand	11	27,240,772	57,685,204
Creditors - amounts falling due within one year	12	(16,274,428)	(22,235,709)
<b>Net current assets</b>		<u>100,908,021</u>	<u>272,653,098</u>
<b>Total assets less current liabilities</b>		500,599,737	672,127,201
Creditors - amounts falling due after more than one year	13	(500,346,798)	(671,908,520)
<b>Net assets</b>		<u>252,939</u>	<u>218,681</u>
<b>Capital and reserves</b>			
Called-up share capital	14	2	2
Profit and loss account	15	252,937	218,679
<b>Shareholders' funds - equity</b>	15	<u>252,939</u>	<u>218,681</u>

The financial statements on pages 4 to 15 were approved by the Board of Directors on 21<sup>st</sup> October 2005 and were signed on its behalf by:



C J Rivers  
Director

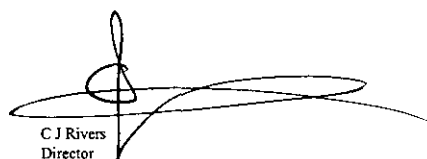
The notes on pages 8 to 15 form an integral part of these consolidated financial statements.

Company balance sheet

As at 31 December

	Notes	2004 £	2003 £
Investment in subsidiaries	8	100,034	100,034
Net assets		<u>100,034</u>	<u>100,034</u>
<b>Capital and reserves</b>			
Called-up share capital	14	2	2
Profit and loss account	15	100,032	100,032
Shareholders' funds - equity	15	<u>100,034</u>	<u>100,034</u>

The financial statements on pages 4 to 15 were approved by the Board of Directors on *21<sup>st</sup> October* 2005 and were signed on its behalf by:

  
C J Rivers  
Director

The notes on pages 8 to 15 form an integral part of these financial statements.

**Consolidated cash flow statement**

For the year ended 31 December

	Notes	2004 £	2003 £
Net cash inflow from operating activities	16	151,945,666	299,771,250
Returns on investments and servicing of finance			
Interest received		19,435,825	20,234,570
Interest paid		(29,951,594)	(40,148,196)
Cash outflow from returns on investments and servicing of finance		(10,515,769)	(19,913,626)
Taxation			
Corporation tax paid		(10,138)	(5,819)
Cash inflow before financing		141,419,759	279,851,805
Financing			
Issue of new debt securities net of repayments		(144,387,757)	(301,250,721)
Repayment of subordinated loans		(19,826,000)	(8,570,000)
Repayment of expenses loan		(58,578)	(351,468)
Repayment of facility loans		(7,591,856)	(16,316,105)
Cash outflow from financing		(171,864,191)	(326,488,294)
Decrease in cash	16	(30,444,432)	(46,636,489)

The notes on pages 8 to 15 form an integral part of these consolidated financial statements.

## Notes to the financial statements

### **1 Principal accounting policies**

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

#### **General**

##### **(a) Basis of preparation**

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards. Historical cost profit is not materially different to the Group profit on ordinary activities before and after taxation as shown in the consolidated profit and loss account for the year. The Company has taken advantage of the exemption in section 230 (4) Companies Act 1985 from presenting its own profit and loss account. The Company's profit for the financial year was £nil (2003: £nil).

##### **(b) Basis of consolidation**

The consolidated accounts include the accounts of Prospect Heights (Holdings) Limited and its subsidiary undertakings made up to 31 December 2004. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from date of acquisition or up to the date of disposal.

In the Company's accounts, investment in subsidiary undertakings is stated at cost less amounts written off.

##### **(c) Turnover**

Turnover comprises interest receivable on personal loans and credit card receivables and other finance charges.

##### **(d) Servicing fees**

Servicing fees were payable by Prospect 2 plc, Prospect 3 plc, Prospect 4 plc, Winkfield Funding plc, Prospect 5 plc, Prospect 6 (Jersey) Limited, Opus Series 1 plc and Affinity 001 plc under the terms of servicing agreements with those companies.

##### **(e) Issue costs**

Costs relating to the issue of finance are shown as a reduction of creditors in accordance with Financial Reporting Standard (FRS) 4 Capital Instruments and are amortised over the life of the financing structure.

##### **(f) Fixed asset investment**

Fixed asset securities are stated in the balance sheet at cost, adjusted for the amortisation of any discount on redemption value on a straight-line basis over the period to maturity. Investment income is accounted for on an accruals basis. Discount on purchase of securities is amortised through the profit and loss account from the purchase date to the maturity date.

##### **(g) Personal loans**

Personal loans are unsecured loans. The Personal Loans securitised under Prospect 2 plc and Winkfield Funding plc are revolving loans.

##### **(h) Credit card receivables**

The credit card receivables securitised under Opus Series 1 plc were revolving loans.

##### **(i) Asset backed floating rate notes**

###### **Prospect 4 plc:**

The Prospect 4 plc Class A and B notes were repaid on 25 February 2005.

###### **Prospect 5 plc:**

The commercial paper issued by Prospect 5 plc was repaid using the proceeds from the sale of assets on 20 December 2004.

###### **Prospect 6 (Jersey) Limited:**

The Prospect 6 (Jersey) Limited Class A and B notes were repaid on 17 October 2005.

###### **Affinity 001 plc:**

The Class A asset backed floating rate notes are due May 2007 and accrue interest at a rate of LIBOR plus 0.18%. The Class B asset backed floating rate notes are due May 2007 and accrue interest at a rate of LIBOR plus 0.50%. The Class A and Class B notes are repayable on the interest payment date falling due in May 2007 but proceeds from the redemption of assets can be used to redeem the notes at an earlier date.

##### **(j) Asset backed certificates and notes**

The Prospect 4 plc Class C notes were repaid on 25 February 2005. The Prospect 6 (Jersey) Limited Class C notes were repaid on 17 October 2005. The Affinity 001 plc Class C notes are due May 2007 and accrue interest at LIBOR plus 1.40%.

##### **(k) Subordinated Loans**

Prospect 4 plc, Winkfield Funding plc and Prospect 6 (Jersey) Limited had each entered into a subordinated loan agreement and a fees facility agreement.

The terms of each securitisation require that the subordinated loans may be repaid in whole or part provided the subsidiary company has sufficient assets to meet its obligations on its Notes and other liabilities. The final payments on the Winkfield Funding plc, Prospect 4 plc and Prospect 6 (Jersey) Limited subordinated loans were made on 20 December 2004, 25 February 2005 and 17 October 2005 respectively.

If, by the relevant date, the relevant subsidiary company has insufficient funds to repay its subordinated loan after paying its own Notes and Certificates in full, it shall only be obliged to repay its subordinated loan to the extent of funds available and as regards credit borrowings under the relevant facility agreement the subsidiary company shall thereafter be released from any further obligation to make any further repayments.

##### **(l) Taxation**

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

## Notes to the financial statements (Continued)

### 2 Turnover

	Group 2004 £	Group 2003 £
Interest received	16,754,299	35,105,954

All turnover arose from credit card receivables and personal loan receivables and originated from the United Kingdom

### 3 Interest receivable

	Group 2004 £	Group 2003 £
Interest receivable on investment in loan notes, bank deposits and swap receipts	20,159,948	19,378,617

### 4 Interest payable

	Group 2004 £	Group 2003 £
Interest payable comprises:		
Interest on asset backed floating rate notes	(26,168,042)	(31,056,835)
Interest paid on mezzanine certificates	-	(193,240)
Interest on subordinated loans	(2,215,502)	(2,204,601)
Swap interest payable	(812,158)	(4,427,000)
	(29,195,702)	(37,881,676)

### 5 Administrative expenses

	Group 2004 £	Group 2003 £
Administrative expenses comprise:		
Servicing fees payable	(277,692)	(438,796)
Issue costs charged to the profit and loss account	(10,540)	(363,565)
Provision for bad and doubtful debts	(6,661,725)	(9,549,899)
Other expenses	(7,387,116)	(15,779,053)
	(14,337,073)	(26,131,313)

### 6 Operating profit and profit on ordinary activities before taxation

The directors received no emoluments and did not exercise any share options in the Company or its Group during the year. No directors were entitled to receive any monies under long-term incentive schemes from the Company or its Group. No contributions were paid by the Company or its Group to any pension scheme for any Director and no retirement benefits are accruing for any Director for which the Company or its Group has made a contribution.

During the year the Company had no employees.

The auditors' remuneration for audit work has been borne by HFC Bank Limited. There was no auditors' remuneration for non-audit work (2003: £nil).

### 7 Taxation

	Group 2004 £	Group 2003 £
Total current tax:		
UK Corporation Tax	11,339	10,301
Adjustment in respect of prior period	-	1,050
Total current tax and tax on profit on ordinary activities	11,339	11,351

The current tax charge for the period is the standard rate of corporation tax in the UK of 30% (2003: 30%).

#### Current tax reconciliation

Profit on ordinary activities before tax	45,597	45,081
Current tax at 30% (2003: 30%)	13,679	13,524

#### Effects of:

Marginal relief	(2,340)	(3,223)
Adjustment in respect of prior years	-	1,050
Total current tax charge	11,339	11,351

# Notes to the financial statements (continued)

## 8 Fixed Assets

### (a) Investment in notes issued by Windsor Investor 1 (Jersey) Limited.

Amortised costs and Net book value:

	2004 £	2003 £
At beginning of period	399,474,103	399,193,243
Amortisation of discount	217,613	280,860
At end of period	399,691,716	399,474,103

### (b) Investment in subsidiaries

	Share in group undertakings Company 2004 £	Share in group undertakings Company 2003 £
Cost (or valuation)		
At beginning of year	100,034	100,034
Additions	-	-
At end of period	100,034	100,034
Net book value At 31 December	100,034	100,034

The principal undertakings in which the Company's interest at the year end is 20% or more are as follows:

	Country of incorporation	Principal activity	Class of share	Percentage of shares held Group	Company
Prospect 1 plc	United Kingdom	Dormant	Ordinary	99.99%	99.99%
Prospect 1 Receivables Trustee Limited	United Kingdom	Dormant	Ordinary	50.00%	50.00%
Prospect 2 plc	United Kingdom	Non-trading	Ordinary	99.99%	99.99%
Prospect 2 Receivables Trustee Limited	United Kingdom	Non-trading	Ordinary	50.00%	50.00%
Prospect 3 plc	United Kingdom	Non-trading	Ordinary	99.99%	99.99%
Prospect 3 Receivables Trustee Limited	United Kingdom	Non-trading	Ordinary	50.00%	50.00%
Prospect 4 plc	United Kingdom	Loan securitisation	Ordinary	99.99%	99.99%
Prospect 4 Receivables Trustee Limited	United Kingdom	Receivables Trustee	Ordinary	50.00%	50.00%
Opus Series 1 plc	United Kingdom	Non-trading	Ordinary	99.99%	99.99%
Opus Master Receivables Trustee Limited	United Kingdom	Non-trading	Ordinary	50.00%	50.00%
Winkfield Funding plc	United Kingdom	Loan securitisation	Ordinary	20.00%	20.00%
Prospect 5 Receivables Trustee Limited	United Kingdom	Receivables Trustee	Ordinary	50.00%	50.00%
Prospect 5 plc	United Kingdom	Issuer of debt	Ordinary	99.99%	99.99%
Prospect 6 (Jersey) Limited	Jersey	Loan securitisation	Ordinary	99.99%	99.99%
Prospect 6 Receivables Trustee (Jersey) Limited	Jersey	Receivables Trustee	Ordinary	50.00%	50.00%
Affinity 001 plc	United Kingdom	Issuer of loan notes	Ordinary	99.99%	99.99%

## 9 Personal loans and credit card receivables

The movement during the year was as follows:

	2004 £	2003 £
Securitised balances at start of year	232,189,198	492,292,937
Total acquisitions during the year	-	93,477,868
Total redemptions during the year	(108,549,228)	(319,927,054)
Sale of receivables	(29,676,825)	(24,104,653)
Movement in provision for bad and doubtful debts *	(6,661,725)	(9,549,900)
Securitised balances at end of year	87,301,420	232,189,198

\* The movement in provision for bad and doubtful debts reflects the amounts charged to the profit and loss account

Remaining maturity:

	2004 £	2003 £
1 year or less	54,456,205	50,419,977
5 years or less but over 1 year	32,845,215	142,347,349
5 years and more	-	39,421,872
Total	87,301,420	232,189,198

## 10 Debtors

	2004 £	2003 £
Due from facility provider	8,625	159,844
Due from HFC Bank Limited	33,989	2,783,134
Accrued income	2,597,641	2,071,425
Sundry debtor	2	2
	2,640,257	5,014,405

# **Notes to the financial statements (continued)**

## **11 Cash at bank and in hand**

	2004 £	2003 £
Balance at bank	26,052,565	54,194,728
Balance held in Guaranteed Investment Contract accounts	1,188,207	3,490,476
	<u>27,240,772</u>	<u>57,685,204</u>

## **12 Creditors - amounts falling due within one year**

	2004 £	2003 £
Facility agreement - fees	-	58,578
Corporation tax payable	11,102	9,901
Amount owed to HFC Bank Limited	10,948,175	15,719,607
Other creditors	13,358	286,921
Accrued expenses	5,301,793	6,160,702
	<u>16,274,428</u>	<u>22,235,709</u>

## **13 Creditors - amounts falling due after more than one year**

	2004 £	2003 £
Re Prospect 4 plc		
Class A Notes	-	17,440,800
Class B Notes	4,105,626	9,380,000
Class C Notes	7,120,000	7,120,000
Subordinated loans	4,500,000	4,500,000
Facility loan	5,247,946	6,151,693
Re Prospect 5 plc		
Privately rated discounted notes	-	29,405,683
Re Winkfield Funding plc		
Subordinated loans	-	19,826,000
Facility loan	-	7,044,309
Re Prospect 6 (Jersey) Limited		
Class A Notes	26,068,350	118,321,905
Class B Notes	23,000,000	22,998,492
Class C Notes	13,500,000	13,499,115
Subordinated loans	11,250,000	11,250,000
Deferred issue expense	-	(10,540)
Facility loan	5,863,160	5,506,960
Re Affinity 001 plc		
Class A Notes	338,000,000	338,000,000
Class B Notes	26,000,000	26,000,000
Class C Notes	36,000,000	36,000,000
Deferred issue expense	(308,284)	(525,897)
	<u>500,346,798</u>	<u>671,908,520</u>

## **14 Share capital**

	Company 2004 £	Company 2003 £
Authorised:		
Equity: 1,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Issued, allotted and fully paid:		
Equity: 2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

## **15 Reserves**

	Group 2004 £	Group 2003 £	Company 2004 £	Company 2003 £
Retained profit brought forward	218,679	184,949	100,032	100,032
Profit for the financial year	34,258	33,730	-	-
Retained profit carried forward	<u>252,937</u>	<u>218,679</u>	<u>100,032</u>	<u>100,032</u>
<b>Reconciliation of movement in shareholders' funds</b>				
Retained profit for the year	34,258	33,730	-	-
Opening shareholders' funds	218,681	184,951	100,034	100,034
Closing shareholders' funds	<u>252,939</u>	<u>218,681</u>	<u>100,034</u>	<u>100,034</u>

## Notes to the financial statements (continued)

### 16 Consolidated cash flow statement

	Group 2004 £	Group 2003 £		
<b>Reconciliation of operating profit to operating cash flows</b>				
Group operating profit	45,597	45,081		
Further purchase of receivables in the year	-	(93,477,868)		
Provisions	6,661,725	9,549,900		
Receivables redeemed during the year	108,549,228	319,927,054		
Receivables sold to HFC Bank Limited	29,676,825	24,104,653		
Interest payable	29,195,702	37,881,676		
Interest receivable	(20,159,948)	(19,378,617)		
Decrease in creditors - less than one year	(5,132,274)	(6,897,227)		
Decrease in debtors	3,108,811	28,016,598		
Net cash inflow from operating activities	<u>151,945,666</u>	<u>299,771,250</u>		
<b>Reconciliation of net cashflow to movement in net debt</b>				
Decrease in cash	(30,444,432)	(46,636,489)		
Amortisation of deferred issue costs	(228,153)	(363,565)		
Amortisation of discount on notes	(15,738)	(123,419)		
Cash outflow from decrease in debt	171,864,191	326,488,294		
Movement in net debt during the year	<u>141,175,868</u>	<u>279,364,821</u>		
Net debt at beginning of year	(614,281,894)	(893,646,715)		
Net debt at end of year	<u>(473,106,026)</u>	<u>(614,281,894)</u>		
<b>Analysis of net debt</b>	<b>At 1 January 2004</b>	<b>Cash flows</b>	<b>Non cash changes</b>	<b>At 31 December 2004</b>
Cash at bank and in hand	57,685,204	(30,444,432)	-	27,240,772
Debt due within one year	(58,578)	58,578	-	-
Debt due after more than one year	(671,908,520)	171,805,613	(243,891)	(500,346,798)
Net debt	<u>(614,281,894)</u>	<u>141,419,759</u>	<u>(243,891)</u>	<u>(473,106,026)</u>

### 17 Financial instruments

#### Liquidity risk

The Group manages its liquidity risk solely in respect of the holders of its debt instruments. Such mitigation is carried out in accordance with the detailed contractual terms relating to the Group's relevant debt securities.

#### Maturity of financial liabilities

The maturity profile of the Group's financial liabilities other than trade creditors and accruals, at 31 December, was as follows:

	2004 £	2003 £
5 years or less but over 2 years	415,417,342	487,146,586
More than 5 years	73,818,350	166,058,972
Total	489,235,692	653,205,558

#### Interest rate risk

Payments by customers under the Group's loan receivables comprise fixed monthly payments. In contrast, the Group's debt liabilities bear interest at a margin over sterling LIBOR. In order to control its exposure to interest rate risk the Group has entered into an interest rate swap for each pool of loan receivables that it has purchased. These swaps were entered into on or about the date that the relevant receivables were purchased and they match the maturity profile of the receivables.

Under the terms of each swap, the Group makes payments to the swap counterparty based on the fixed rates defined in the relevant swap agreement and the Group receives payments from the swap counterparty based on the relevant LIBOR reset relating to its debt securities.

The notional principal amount used for calculating such payments, in respect of any interest period, will be a specified proportion of the aggregate principal outstanding of the receivables in respect of which such swap transaction was entered into. The determination of the notional principal balance for each interest period for each swap is made on or about the date on which such interest period begins.

The Group does not take any other action to further reduce its interest rate exposure.

The Group does not use derivatives for creating risk that does not arise in the underlying business and the Group does not trade in derivatives. All derivatives are therefore designated as hedging instruments and accounted for using hedge accounting.

**Notes to the financial statements (continued)**

**17 Financial instruments (continued)**

**Fair value of financial instruments**

The table below shows the estimated fair value and carrying value for each major category of financial assets and liabilities at 31 December. The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. Thus it excludes personal loan receivables and off balance sheet interest rate swaps (see below) whose book and fair values differ at 31 December.

	Carrying amount 2004	Fair value 2004	Carrying amount 2003	Fair value 2003
Investment in notes issued by Windsor Investor 1 (Jersey) Limited	399,691,716	400,000,000	399,474,103	400,000,000
Cash at bank	27,240,772	27,240,772	57,685,204	57,685,204
Loan notes	(473,485,692)	(473,793,976)	(617,629,558)	(618,181,733)
Total	(46,553,204)	(46,553,204)	(160,470,251)	(160,496,529)

**Interest rate sensitivity**

The table below summarises the re-pricing mismatches across the Group's balance sheet as at 31 December. Within this table, items are allocated to time bands by reference to the earlier of their next contractual or expected interest rate re-pricing date, their final maturity date.

2004	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non interest bearing and excluded items	Total
<b>Assets:</b>							
Personal loans	15,815,036	14,849,622	23,791,547	32,845,215	-	-	87,301,420
Investment in notes issued by Windsor Investor 1 (Jersey) Limited	399,691,716	-	-	-	-	-	399,691,716
Debtors	-	-	-	-	-	2,640,257	2,640,257
Cash at bank and in hand	27,240,772	-	-	-	-	-	27,240,772
<b>Total assets</b>	<b>442,747,524</b>	<b>14,849,622</b>	<b>23,791,547</b>	<b>32,845,215</b>	<b>-</b>	<b>2,640,257</b>	<b>516,874,165</b>

**Liabilities:**

Floating rate notes	473,793,976	-	-	-	-	(308,284)	473,485,692
Subordinated loans	15,750,000	-	-	-	-	-	15,750,000
Facility loans	-	-	-	-	-	11,111,106	11,111,106
Other creditors	-	-	-	-	-	16,274,428	16,274,428
Shareholders funds	-	-	-	-	-	252,939	252,939
<b>Total liabilities</b>	<b>489,543,976</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27,330,189</b>	<b>516,874,165</b>

**Off balance sheet items:**

Asset	110,994,423	-	-	-	-	-	110,994,423
Liability	95,477,320	3,100,465	4,979,684	7,436,954	-	-	110,994,423
<b>Interest rate sensitivity gap</b>	<b>(31,279,349)</b>	<b>11,749,157</b>	<b>18,811,863</b>	<b>25,408,261</b>	<b>-</b>	<b>(24,689,932)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(31,279,349)</b>	<b>(19,530,192)</b>	<b>(718,329)</b>	<b>24,689,932</b>	<b>24,689,932</b>	<b>-</b>	<b>-</b>

2003	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non interest bearing and excluded items	Total
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<b>Assets:</b>							
Personal loans & credit cards	64,136,089	10,326,691	20,246,602	119,326,806	18,153,010	-	232,189,198
Investment in notes issued by Windsor Investor 1 (Jersey) Limited	399,474,103	-	-	-	-	-	399,474,103
Debtors	-	-	-	-	-	5,014,405	5,014,405
Cash at bank and in hand	57,685,204	-	-	-	-	-	57,685,204
<b>Total assets</b>	<b>521,295,396</b>	<b>10,326,691</b>	<b>20,246,602</b>	<b>119,326,806</b>	<b>18,153,010</b>	<b>5,014,405</b>	<b>694,362,910</b>

**Liabilities:**

Floating rate notes	588,760,312	-	-	-	-	(536,437)	588,223,875
Debt securities	29,405,683	-	-	-	-	-	29,405,683
Subordinated loans	35,576,000	-	-	-	-	-	35,576,000
Facility loans	-	-	-	-	-	18,702,962	18,702,962
Other creditors	58,578	-	-	-	-	22,177,131	22,235,709
Shareholders funds	-	-	-	-	-	218,681	218,681
<b>Total liabilities</b>	<b>653,800,573</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,562,337</b>	<b>694,362,910</b>

**Off balance sheet items:**

Asset	274,078,634	-	-	-	-	-	274,078,634
Liability	220,372,745	3,345,928	6,546,301	38,095,165	5,718,495	-	274,078,634
<b>Interest rate sensitivity gap</b>	<b>(78,799,288)</b>	<b>6,980,763</b>	<b>13,700,301</b>	<b>81,231,641</b>	<b>12,434,515</b>	<b>(35,547,932)</b>	<b>-</b>
<b>Cumulative gap</b>	<b>(78,799,288)</b>	<b>(71,818,525)</b>	<b>(58,118,224)</b>	<b>23,113,417</b>	<b>35,547,932</b>	<b>-</b>	<b>-</b>

## Notes to the financial statements (continued)

### 17 Financial instruments (continued)

The following table summarises the contract amount, as at the balance sheet date, of third party off-balance sheet interest rate swaps. Under the terms of these interest rate swaps, the notional principal for each interest period is tied to the outstanding principal of specified underlying receivables (see Interest Rate Risk).

The future notional principal balances of such interest rate swaps are therefore subject to prospective prepayment, delinquency and loss rates in relation to the relevant underlying receivables. Due to the high degree of subjectivity in estimating the future outstanding notional principal in relation to its interest rate swaps, the Group has not attempted to estimate either their market value or replacement cost.

	2004 Contract or underlying principal amounts	2003 Contract or underlying principal amounts
Used to manage interest rate risk		
Interest rate swaps	110,994,423	274,078,634
<b>Total</b>	<b>110,994,423</b>	<b>274,078,634</b>
With OECD financial institutions	110,994,423	274,078,634
<b>Total</b>	<b>110,994,423</b>	<b>274,078,634</b>
In not more than one year	103,557,469	230,264,974
In more than one year but not more than five years	7,436,954	38,095,165
In more than five years	-	5,718,495
<b>Total</b>	<b>110,994,423</b>	<b>274,078,634</b>

### 18 Related party transactions

The Company has identified the following transactions which are required to be disclosed under the terms of FRS 8, "Related Party Disclosures".

#### Transactions with HFC Bank Limited

##### Prospect 1 Receivables Trustee Limited

At 31 December 2004 HFC Bank Limited owed £4,800 (2003:£4,800) to the Company in relation to trustee remuneration. HFC Bank Limited was owed £2,400 (2003: £2,400) by the Company in relation to trustee expenses.

##### Prospect 2 plc

In December 1995, the Company purchased revolving personal loans of £187.1 million from HFC Bank Limited, a company which could be construed as being a related party as defined by FRS 8 by virtue of the fact that the purchased loans continue to be managed under an outsourcing agreement by HFC Bank Limited. HFC Bank Limited earned £nil (2003: £46,429) in servicing fees in the year.

During the year, HFC Bank Limited earned £nil (2003: £6.9 million) in relation to income entitlements in its capacity as a beneficiary of the receivables trust. At 31 December 2004 HFC Bank Limited was owed £0.06 million (2003: £0.06 million) by the Company in respect of income entitlement.

##### Prospect 2 Receivables Trustee Limited

At 31 December 2004 HFC Bank Limited owed £6,000 (2003:£6,000) to the Company in relation to trustee remuneration and HFC Bank Limited was owed £3,050 (2003: £3,050) by the Company in relation to trustee expenses.

##### Prospect 3 plc

In November 1996, the Company purchased loan advances of £222.0 million from HFC Bank Limited, a company which could be construed as being a related party as defined by FRS 8 by virtue of the fact that the purchased loans continued to be managed under an outsourcing agreement by HFC Bank Limited. HFC Bank Limited earned £nil (2003: £56,117) in servicing fees in the year.

During the year, HFC Bank Limited earned £nil (2003: £1.9 million) in relation to income entitlements in its capacity as a beneficiary of the receivables trust.

##### Prospect 3 Receivables Trustee Limited

At 31 December 2004 HFC Bank Limited owed £5,600 (2003:£5,600) to the Company in relation to trustee remuneration and HFC Bank Limited was owed £2,850 (2003: £2,850) by the Company in relation to trustee expenses.

##### Prospect 4 plc

In November 1998, the Company purchased loan advances of £150.0 million from HFC Bank Limited, a company which could be construed as being a related party as defined by FRS 8 by virtue of the fact that the purchased loans continue to be managed under an outsourcing agreement by HFC Bank Limited. HFC Bank Limited earned £99,991 (2003: £100,009) in servicing fees in the year. At 31 December 2004, HFC Bank Limited was owed £9,239 (2003: £9,248) in respect of these fees.

During the year, HFC Bank Limited earned £0.5 million (2003: £5.0 million) in relation to income entitlements in its capacity as a beneficiary of the receivables trust, and is owed £3.7 million (2003: £4.3 million) in income entitlement at the year end.

##### Prospect 4 Receivables Trustee Limited

At 31 December 2004 HFC Bank Limited owed £4,800 (2003: £4,000) to the Company in relation to trustee remuneration and income entitlement and HFC Bank Limited was owed £2,450 (2003: £2,050) by the Company in relation to trustee expenses.

During the year, HFC Bank Limited incurred £800 (2003: £800) in relation to trustee remuneration and income entitlement, and earned £400 (2003: £400) in relation to trustee fees.

##### Winkfield Funding plc

In March 2000, the Company purchased revolving personal loans of £150.0 million from HFC Bank Limited, a company which could be construed as being a related party as defined by FRS 8 by virtue of the fact that the purchased loans continue to be managed under an outsourcing agreement by HFC Bank Limited. HFC Bank Limited earned £70,752 (2003: £80,003) in servicing fees in the year. At 31 December 2004, HFC Bank Limited was owed £nil (2003: £2,800) in respect of these fees.

During the year, HFC Bank Limited earned £1.9 million (2003: £17.1 million) in relation to income entitlements in its capacity as a beneficiary of the receivables trust, and is owed £nil (2003: £5.7 million) in income entitlement at the year end.

Under the terms of the securitisation agreement the Company is entitled to purchase further qualifying loan advances from HFC Bank Limited which it offers for sale within a defined substitution period. During the year the Company has acquired £nil (2003: £4.4 million) of qualifying loan advances from HFC Bank Limited under this agreement.

On 20 December 2004 all personal loan receivables were sold to HFC Bank Limited for £29.7 million at no gain or loss.

##### Prospect 5 plc

The Company has entered into a servicing agreement with HFC Bank Limited. HFC Bank Limited earned £22,181 (2003: £22,998) in servicing fees in the year. At 31 December 2004, HFC Bank Limited was owed £nil (2003: £819) in respect of these fees.

## Notes to the financial statements (continued)

### **18 Related party transactions (continued)**

#### ***Prospect 5 Receivables Trustee Limited***

At 31 December 2004 HFC Bank Limited owed £3,800 (2003: £3,000) to the Company in relation to trustee remuneration and HFC Bank Limited was owed £1,950 (2003: £1,550) by the Company in relation to trustee expenses.

During the year, HFC Bank Limited incurred £800 (2003: £800) in relation to trustee remuneration, and earned £400 (2003: £400) in relation to trustee fees.

#### ***Prospect 6 (Jersey) Limited***

In December 2000, the Company purchased loan advances of £250.0 million from HFC Bank Limited, a company which could be construed as being a related party as defined by FRS 8 by virtue of the fact that the purchased loans continue to be managed under an outsourcing agreement by HFC Bank Limited. HFC Bank Limited earned £99,361 (2003: £99,824) in servicing fees in the year. At 31 December 2004, HFC Bank Limited was owed £20,109 (2003: £20,748) in respect of these fees.

During the year, HFC Bank Limited earned £7.2 million (2003: £15.6 million) in relation to deferred purchase consideration, and is owed a further £1.7 million (2003: £5.4 million) in deferred purchase consideration at the year end.

Under the terms of the securitisation agreement the Company is entitled to purchase further qualifying loan advances from HFC Bank Limited which it offers for sale within a defined substitution period. During the year the Company has acquired £nil (2003: £89.1 million) of qualifying loan advances from HFC Bank Limited under this agreement.

#### ***Prospect 6 Receivables Trustee (Jersey) Limited***

At 31 December 2004 HFC Bank Limited owed £3,000 (2003: £2,200) to the Company in relation to trustee remuneration and income entitlement and HFC Bank Limited was owed £2,700 (2003: £1,900) by the Company in relation to trustee expenses and taxation paid on behalf of the Company.

During the year, HFC Bank Limited incurred £800 (2003: £800) in relation to trustee remuneration and income entitlement, and earned £400 (2003: £400) in relation to trustee fees.

#### ***Opus Series 1 plc***

In November 1997, the Company purchased current and future receivables arising under credit card accounts for consideration of £150.0 million from HFC Bank Limited, a group which could be construed as being under common control as defined by FRS 8 by virtue of the fact that the purchased receivables continue to be managed under an outsourcing agreement by HFC Bank Limited. HFC Bank Limited earned £nil (2003: £180) in servicing fees in the year.

During the year, HFC Bank Limited earned £nil (2003: £4.1 million) in relation to income entitlements in its capacity as a beneficiary of the receivables trust.

At 31 December 2004, HFC Bank Limited owed the Company £3,739 (2003: £3,739) in relation to originator entitlement.

#### ***Opus Master Receivables Trustee Limited***

At 31 December 2004 HFC Bank Limited owed £232,300 (2003: £232,300) to the Company in relation to trustee remuneration and HFC Bank Limited was owed £230,050 (2003: £230,050) by the Company in relation to trustee expenses.

### **Transactions with Household Global Funding, Inc**

#### ***Prospect 4 plc***

At 31 December 2004 Household Global Funding, Inc., a related company to HFC Bank Limited was owed £4.5 million (2003: £4.5 million) by the Company in respect of the subordinated loan. During the year, Household Global Funding, Inc., earned £0.3 million (2003: £0.2 million) in relation to interest on the subordinated loan, and was owed £27,745 (2003: £24,038) at the year end in respect of the interest.

#### ***Winkfield Funding plc***

At 31 December 2004 Household Global Funding, Inc., a related company to HFC Bank Limited was owed £nil (2003: £19.8 million) by the Company in respect of the subordinated loan.

During the year, Household Global Funding, Inc. earned £1.2 million (2003: £1.1 million) in relation to subordinated loans and was owed £nil (2003: £39,702) at the year end.

#### ***Prospect 6 (Jersey) Limited***

At 31 December 2004 Household Global Funding, Inc., a related company to HFC Bank Limited was owed £11.25 million (2003: £11.25 million) by the Company in respect of a subordinated loan. During the year, Household Global Funding, Inc. earned £0.8 million (2003: £0.7 million) in relation to interest on the subordinated loan, and was owed £0.2 million (2003: £0.1 million) at the year end in respect of the interest.

### **19 Ultimate parent undertaking**

The entire issued share capital of Prospect Heights (Holdings) Limited is held by Royal Exchange Trust Company Limited, a company registered in England, and its nominee as trustee for various United Kingdom institutions established for charitable purposes.