

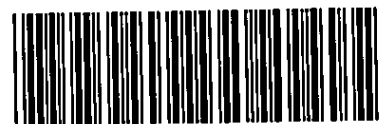
Prospect Heights (Holdings) Limited

REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

**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 2006. It is the intention of the directors to wind-up Prospect Heights (Holdings) Limited ("the Company") together with the other companies within the Group in 2007. These financial statements are prepared on a wind-up basis of accounting where all assets are stated at their net recoverable amounts.

Principal activities and business review

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. The directors believe the current levels of activity will cease upon the maturity of the notes issued by Affinity 001 plc. This took place as expected on 15 May 2007.

Financial results

The Group made a profit for the financial year of £2,692 (2005: profit of £37,628) which has been taken to reserves. The directors do not recommend the payment of a dividend (2005: £Nil).

Performance

The Company's results along with its financial position for the year under review are as detailed in the income statement and the balance sheet as shown in these accounts.

The key performance indicator used by management in assessing the performance of the Company is monitoring of actual cashflows in comparison with the planned cashflows determined at the closing of the transaction.

Future Developments

No new financing transactions are anticipated at this time.

Risk Management

The financial risk management objectives and policies of the Company together with an analysis of the exposure to such risks as required under the Companies Act 1985 are set out in Note 17 of these financial statements.

Directors and their interests

The directors who served during the year are as follows:

Capita Trust Company Limited (resigned 4th July 2007)
F L Newell
C J Rivers

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 Group and 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 Group and Company as at 31 December 2006 of zero days (2005: 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 Group and Company and the amount invoiced by suppliers in the period.

Financial instruments

The financial risk management objectives and policies of the Group and Company together with an analysis of the exposure to such risks as required under the Companies Act 1985 are set out in Note 17 of these financial statements.

Directors' report (continued)**Auditors**

The Company having passed in General Meeting an elective resolution in accordance with s379A Companies Act 1985 (as amended) to dispense with the obligation to appoint auditors annually as permitted by s386 Companies Act 1985 KPMG Audit plc shall be deemed to be re-appointed as auditors to the Company for the next financial year

Disclosure of information to auditors

The directors who held office at the date of approval of this director's report confirm that so far as they are each aware there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Statement of Directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare consolidated financial statements for each financial year. Under that law they have elected to prepare the consolidated financial statements in accordance with IFRSs as adopted by the EU and applicable laws

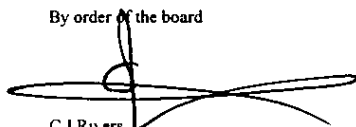
The financial statements are required by law to present fairly the financial position and the performance of the Group. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

In preparing the Group's 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 they have been prepared in accordance with IFRSs as adopted by the EU, and
- 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 that disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company 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

25 October 2007

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

We have audited the consolidated financial statements of Prospect Heights (Holdings) Limited for the year ended 31 December 2006 which comprise the consolidated profit and loss account the consolidated statement of recognised income and expense the consolidated balance sheet the Company balance sheet the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's member 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 member 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 member 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' responsibilities for preparing the Directors' Report and the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of IAS Regulation. We also report to you if in our opinion the Directors' report is not consistent with the consolidated financial statements if the Group or 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 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 judgements 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 consolidated financial statements

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group and Company's affairs as at 31 December 2006 and of the Group's profit for the year then ended
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of IAS Regulation and
- the information given in the Director's Report is consistent with the consolidated financial statements

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

2007

Consolidated profit and loss account**For the year ended 31 December**

	Note	2006 £	2005 £
Revenue	3	-	5 239 289
Interest receivable and similar income	4	20 472 634	20 620 612
Interest payable and similar charges	5	(20 469 942)	(23 203 400)
Other income		-	1 766 861
Administrative expenses	6	-	(4 376 929)
Operating profit and profit before tax		2,692	46,433
Income tax expense	8	(511)	(8 795)
Profit after tax	16	2,181	37,638

Statement of recognised income and expense**For the year ended 31 December**

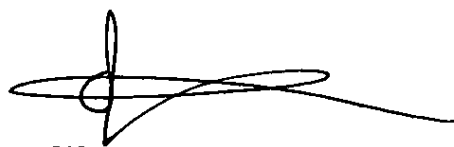
	2006 £	2005 £
Profit for the year	2 181	37 638
Total recognised income for the year	2,181	37,638

The notes on pages 9 to 18 form an integral part of these consolidated financial statements

Consolidated balance sheet**As at 31 December**

	Note	2006 £	2005 £
Assets			
Non-current assets			
Other financial assets	9	400 000 000	399 909 329
Total non-current assets		<u>400 000 000</u>	<u>399 909 329</u>
Current assets			
Debtors	11	2 791 832	2 525 117
Cash and cash equivalents	12	317 637	351,223
Total current assets		<u>3 109 469</u>	<u>2 876 340</u>
Total assets		<u>403,109,469</u>	<u>402,785,669</u>
Liabilities & equity			
Current liabilities			
Corporation tax payable		(511)	(8 558)
Accrued expenses	13	(2 816 200)	(2 577 205)
Total current liabilities		<u>(2 816 711)</u>	<u>(2 585 763)</u>
Non-current liabilities			
Floating rate notes issued	14	(400 000 000)	(399,909 329)
Total non-current liabilities		<u>(400 000 000)</u>	<u>(399 909 329)</u>
Total liabilities		<u>(402,816,711)</u>	<u>(402,495,092)</u>
Equity			
Called-up share capital	15	(2)	(2)
Retained earnings	16	(292 756)	(290 575)
Total equity	16	<u>(292,758)</u>	<u>(290,577)</u>
Total liabilities & equity		<u>(403 109 469)</u>	<u>(402 785 669)</u>

The financial statements on pages 5 to 18 were approved by the Board of Directors on **25** October 2007 and were signed on its behalf by



C J Rivers
Director

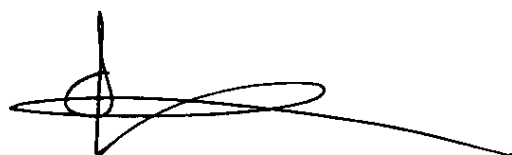
The notes on pages 9 to 18 form an integral part of these consolidated financial statements

Company balance sheet

As at 31 December

	Note	2006 £	2005 £
Assets			
Non-current assets			
Investments in subsidiaries	9	100 034	100 034
Total non-current assets		<u>100 034</u>	<u>100 034</u>
Current Assets			
Cash and cash equivalents		178 554	-
Total current assets		<u>178 554</u>	<u>-</u>
Net assets		<u>278 588</u>	<u>100 034</u>
Liabilities & equity			
Current liabilities			
Taxation		(1 203)	-
Creditors		(87,534)	-
Total current liabilities		<u>(88 737)</u>	<u>-</u>
Total liabilities		<u>(88,737)</u>	<u>-</u>
Equity			
Called-up share capital	15	(2)	(2)
Retained earnings	16	(189 849)	(100 032)
Total equity		<u>(189,851)</u>	<u>(100,034)</u>
Total liabilities & equity		<u>(278 588)</u>	<u>(100,034)</u>

The financial statements on pages 5 to 19 were approved by the Board of Directors on 25 October 2007 and were signed on its behalf by



C J Rivers
Director

The notes on pages 9 to 18 form an integral part of these financial statements

Consolidated cash flow statement**For the year ended 31 December**

	Note	2006 £	2005 £
Cashflows from operating activities			
Profit before tax		2 692	46 433
(Decrease)/increase in creditors		238 995	(13 686 121)
Decrease/(increase) in debtors and accrued income		(266 715)	87 416 560
Cash generated from/(used by) operations		(25 028)	73 776 872
Income taxes paid		(8 558)	(11 339)
Net cash from operating activities		(33 586)	73 765 533
Investing			
Decrease/(increase) in other financial assets		(90,671)	-
Cash outflow from investing		(90 671)	-
Financing			
Issue of new debt securities net of repayments		90 671	(73 793 976)
Repayment of subordinated loans		-	(15 750 000)
Repayment of facility loans		-	(11,111,106)
Cash outflow from financing		90 671	(100 655 082)
Net (decrease) in cash and cash equivalents		(33 586)	(26 889 549)
Cash and cash equivalents at 1 January		351 223	27 240 772
Cash and cash equivalents at 31 December	12	317 637	351 223

The notes on pages 9 to 18 form an integral part of these consolidated financial statements

Notes to the financial statements

1 General

Basis of preparation

The Company and its subsidiaries are in the process of an orderly wind-up and therefore these financial statements have not been prepared on going concern basis. They have been prepared on a wind-up basis of accounting.

Accordingly these financial statements are presented on a wind-up basis of accounting where all assets are stated at their estimated net recoverable amounts. Any wind up costs expected to be incurred up to the date the Company will cease to trade will be borne by HSBC Holdings Ltd, the ultimate parent undertaking.

For all periods up to and including the year ended 31 December 2004, the Group and Company prepared its financial statements in accordance with UK Generally Accepted Principles ('UK GAAP'). From 1 January 2005 the Group and Company has prepared its financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU (adopted IFRSs) and effective for the Group's and Company's reporting for the year ended 31 December 2006. IFRSs comprise accounting standards issued by the International Accounting Standards Board (IASB) and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

The IASB issued IFRS 7 'Financial Instruments Disclosures' in August 2005. The accounting standard superseded IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and replaced the disclosure requirements of IAS 32 'Financial Instruments: Disclosure and Presentation'. The standard is required to be applied for periods beginning on or after 1 January 2007. Affinity 001 Plc chose to adopt this standard early and has applied it since 1 January 2005. This standard was endorsed by the EU on 11 January 2006.

Prospect Heights (Holdings) Limited chose to adopt the recent 'Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures' with effect from 1 January 2006. This amendment becomes effective for periods beginning on or after 1 January 2007 and was endorsed by the EU on 11 January 2006.

As the principal currency in which the Group's and Company's business is conducted (which is its functional currency) is Sterling, these accounts are presented in that currency.

General information

Prospect Heights (Holdings) Limited is a company domiciled in and incorporated in England and Wales.

2 Principal accounting policies

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

(a) Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments are recognised in 'Interest receivable and similar income' and 'Interest payable and similar charges' in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Such cash payments will include any incremental costs that are directly attributable to the acquisition or issue of a financial instrument.

(b) Revenue

Revenue comprises income from Windsor Investor 1 (Jersey) Limited.

(c) Amortisation of issue costs

The Group incurred structuring and legal fees that were directly attributable to the issuance of the financial liabilities at launch.

These fees are amortised in the income statement on an effective interest rate basis and are included within 'Interest payable and similar charges'.

(d) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. A deferred tax asset is recognised only to the extent that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the financial statements (continued)**2 Principal accounting policies (continued)****(e) Financial instruments****Other financial assets**

The other financial assets categorised as loans and receivables under IAS 39, are disclosed as non-current assets and are valued at amortised cost

Floating rate notes issued

Floating rate notes ("FRNs") issued are disclosed as non-current liabilities and are held at amortised cost. FRNs expected to be repaid within a year from the balance sheet date are classified as current liabilities at year end.

(f) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(g) Basis of consolidation

The consolidated accounts include the accounts of Prospect Heights (Holdings) Limited and its subsidiary undertakings made up to 31 December 2006. 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 impairment.

(h) 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.

(i) Asset backed floating rate notes

Affinity 001 plc

The Class A asset backed floating rate notes were due May 2007 and accrued interest at a rate of LIBOR plus 0.18%. The Class B asset backed floating rate notes were due May 2007 and accrued interest at a rate of LIBOR plus 0.50%. The Class A and Class B notes were repayable on the interest payment date falling due in May 2007 but proceeds from the redemption of assets may have been 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%.

Notes to the financial statements (continued)**3 Revenue**

	Group 2006 £	Group 2005 £
Interest received on personal loan receivables	-	5,239,289

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

4 Interest receivable and similar income

	Group 2006 £	Group 2005 £
Interest receivable on investment in loan notes bank deposits and swap receipts	20,472,634	20,620,612

5 Interest payable and similar charges

	Group 2006 £	Group 2005 £
Interest payable comprises		
Interest on asset backed floating rate notes	(20,469,942)	(22,476,338)
Interest on subordinated loans	-	(679,497)
Swap payment	-	(47,565)
	(20,469,942)	(23,203,400)

6 Administrative expenses

	Group 2006 £	Group 2005 £
Administrative expenses comprise		
Servicing fees payable	-	(96,452)
Issue costs charged to the profit and loss account	-	0
Provision for bad and doubtful debts	-	(1,765,261)
Other expenses	-	(2,515,216)
	-	(4,376,929)

7 Directors emoluments and auditors' remuneration

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

The auditors' remuneration for audit work was £22,000 (2005: £22,000) and has been borne by HSBC Bank Plc. The allocation of this to the Group is shown below:

	2006 £	2005 £
Prospect Heights (Holdings) Limited	5,000	5,000
Affinity 001 plc	15,333	15,333
Prospect 7 (Jersey) Limited	1,667	1,667
	22,000	22,000

There was no auditors' remuneration for non-audit work (2005: £nil)

Notes to the financial statements (continued)**8 Income tax expense**

	Group 2006 £	Group 2005 £
The charge for the year comprises		
Total current tax		
UK corporation tax at 19%	511	8,795
Income tax expense	<u>511</u>	<u>8,795</u>

The current tax charge for the period is the same as the small companies rate of corporation tax in the UK of 19%. The differences are explained below

Reconciliation of effective tax rate

Profit before tax	<u>2,692</u>	<u>46,433</u>
Tax at 19%	511	8,822
Effects of		
Marginal relief claimed	-	(27)
Total current tax charge (see above)	<u>511</u>	<u>8,795</u>
Effective tax rate	19%	19%

9 Other financial assets**(a) Loans and receivables**

	2006 £	2005 £
Loans and receivables	<u>400,000,000</u>	<u>399,909,329</u>

Affinity 001 plc has issued FRNs and used the proceeds to acquire notes issued by Windsor Investor 1 (Jersey) Limited. Windsor Investor 1 (Jersey) Limited purchased interests in a Receivables Trust of loan advances categorised as loans and receivables under IAS 39 of which Windsor Master Receivables Trustee (Jersey) Limited is a trustee. Windsor Master Receivables Trustee (Jersey) Limited purchased the loan advances from HFC Bank Limited, a company which could be construed as being a related party by virtue of the fact that the purchased loans continue to be managed under an outsourcing agreement by HFC Bank Limited.

These loans are denominated in Sterling, are floating rate and paid monthly.

(b) Investment in subsidiaries

	Share in group undertakings Company 2006 £	Share in group undertakings Company 2005 £
Cost (or valuation)		
At beginning of year	100,034	100,034
Additions	-	-
At end of period	<u>100,034</u>	<u>100,034</u>
Net book value		
At 31 December	<u>100,034</u>	<u>100,034</u>

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		Aggregated share capital & reserves £
				Group	Company	
Prospect 1 plc	United Kingdom	Dormant	Ordinary	99.99%	99.99%	12,500
Prospect 1 Receivables Trustee Limited	United Kingdom	Dormant	Ordinary	50.00%	50.00%	2
Prospect 2 plc	United Kingdom	Dormant	Ordinary	99.99%	99.99%	12,500
Prospect 2 Receivables Trustee Limited	United Kingdom	Dormant	Ordinary	50.00%	50.00%	2
Prospect 3 plc	United Kingdom	Dormant	Ordinary	99.99%	99.99%	12,500
Prospect 3 Receivables Trustee Limited	United Kingdom	Dormant	Ordinary	50.00%	50.00%	2
Prospect 4 plc	United Kingdom	Dormant	Ordinary	99.99%	99.99%	12,500
Prospect 4 Receivables Trustee Limited	United Kingdom	Dormant	Ordinary	50.00%	50.00%	2
Opus Series 1 plc	United Kingdom	Dormant	Ordinary	99.99%	99.99%	12,500
Opus Master Receivables Trustee Limited	United Kingdom	Dormant	Ordinary	50.00%	50.00%	2
Winkfield Funding plc	United Kingdom	Dormant	Ordinary	20.00%	20.00%	12,500
Prospect 5 Receivables Trustee Limited	United Kingdom	Dormant	Ordinary	50.00%	50.00%	2
Prospect 5 plc	United Kingdom	Dormant	Ordinary	99.99%	99.99%	12,500
Prospect 6 (Jersey) Limited	Jersey	Non-trading	Ordinary	99.99%	99.99%	10
Prospect 6 Receivables Trustee (Jersey) Limited	Jersey	Non-trading	Ordinary	50.00%	50.00%	10
Prospect 7 (Jersey) Limited	Jersey	Non-trading	Ordinary	100.00%	100.00%	2
Affinity 001 plc	United Kingdom	Issuer of loan notes	Ordinary	99.99%	99.99%	12,502

Notes to the financial statements (continued)**10 Personal loans and credit card receivables**

	2006 £	2005 £
The movement during the year was as follows		
Securitised balances at start of year	-	87 301 420
Total redemptions during the year	-	(43 017 842)
Sale of receivables	-	(42 518 317)
Movement in provision for bad and doubtful debts *	-	(1 765 261)
	<hr/>	<hr/>
Securitised balances at end of year	-	-

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

11 Debtors

	2006 £	2005 £
Due from facility provider	-	8 625
Due from HFC Bank Limited	-	33 589
Accrued income	2 791 832	2 482 899
Sundry debtor	-	4
	<hr/>	<hr/>
	2,791,832	2 525,117

12 Cash and cash equivalents

	2006 £	2005 £
Balance at bank	317 637	351 223
	<hr/>	<hr/>
	317 637	351 223

The Company's cash and cash equivalents balance was £178 000 (2005: £Nil)

13 Creditors - amounts falling due within one year

	2006 £	2005 £
Amount owed to HFC Bank Limited	-	77 590
Other creditors	-	14 403
Accrued expenses	2 816 200	2 485 212
	<hr/>	<hr/>
	2 816,200	2 577 205

Notes to the financial statements (continued)**14 Floating rate notes issued**

	2006 £	2005 £
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	-	(90,671)
	<u>400,000,000</u>	<u>399,909 329</u>

15 Called-up share capital

	Company 2006 £	Company 2005 £
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>

16 Shareholders' equity

	Share Capital £	Retained earnings £	Total Shareholders' Equity £
Consolidated			
Balance at 1 January 2005	2	252 937	252 939
Total recognised income and expense	-	37 638	37 638
	<u>2</u>	<u>290,575</u>	<u>290,577</u>
Balance at 1 January 2006	-	2 181	2 181
Total recognised income and expense			
	<u>2</u>	<u>292,756</u>	<u>292,758</u>
Balance at 31 December 2006			
	<u>2</u>	<u>189,849</u>	<u>189,851</u>
Company			
Balance at 1 January 2005	2	100,032	100 034
Total recognised income and expense	-		-
	<u>2</u>	<u>100,032</u>	<u>100,034</u>
Balance at 1 January 2006	-	89 817	89 817
Total recognised income and expense			
	<u>2</u>	<u>189,849</u>	<u>189,851</u>
Balance at 31 December 2006			

Notes to the financial statements (continued)**17 Financial instruments****Financial assets**

The financial assets of the Group exposed to interest rate risk amount to £400 million (2005 £400 million), which is all at a floating rate of interest. The amount comprises cash that bears interest at overnight bank deposit rates and debtors which include loans and receivables that bear interest at rates based on 3 month LIBOR.

Financial liabilities

The financial liabilities of the Group exposed to interest rate risk amount to £400 million (2005 £399.9 million) denominated in Sterling. The entire amount £400 million (2005 £399.9 million) is subject to a floating rate of interest.

The following is an analysis of financial instruments by classification under IAS 39

2006

	Financial assets and liabilities at amortised cost	Total
	£	£
Assets		
Cash and cash equivalents	317,637	317,637
Loans and receivables	400,000,000	400,000,000
Total financial assets	400,317,637	400,317,637
Total non-financial assets		2,791,832
Total assets		403,109,469
Liabilities		
Floating rate notes	400,000,000	400,000,000
Total financial liabilities	400,000,000	400,000,000
Total non-financial liabilities		2,816,711
Total liabilities		402,816,711

2005

	Financial assets and liabilities at amortised cost	Total
	£	£
Assets		
Cash and cash equivalents	351,223	351,223
Loans and receivables	399,909,329	399,909,329
Total financial assets	400,260,552	400,260,552
Total non-financial assets		2,525,117
Total assets		402,785,669
Liabilities		
Floating rate notes	399,909,329	399,909,329
Total financial liabilities	399,909,329	399,909,329
Total non-financial liabilities		2,585,763
Total liabilities		402,495,092

Notes to the financial statements (continued)**17 Financial instruments (continued)****Liquidity risk**

Maturity of financial liabilities is disclosed below

Maturity analysis of assets and liabilities

The tables below summarises the remaining contractual maturities of the financial assets and liabilities of the Group

2006	Not more than one year	More than one year but not more than five years
	£	£
Assets		
Cash and cash equivalents	317 637	-
Loans and receivables	400 000 000	-
Total financial assets	400,317,637	-
Liabilities		
Floating rate notes	400 000 000	-
Total financial liabilities	400,000,000	-
2005	Not more than one year	More than one year but not more than five years
	£	£
Assets		
Cash and cash equivalents	351 223	-
Loans and receivables	-	399 909 329
Total financial assets	351,223	399 909,329
Liabilities		
Floating rate notes	-	399 909 329
Total financial liabilities	-	399,909,329

Currency risk

The Group is not subject to currency risk. The Group's assets and liabilities are denominated in Sterling.

Notes to the financial statements (continued)**17 Financial instruments (continued)****Fair value of financial assets and liabilities**

The table below shows the estimated fair value and carrying value for each major category of financial assets and liabilities at 31 December. The Group has taken advantage of the exemption available and not included short term debtors or creditors in the analyses provided in this note as their carrying value approximates fair value.

	Fair value 2006	Carrying amount 2006	Fair value 2005	Carrying amount 2005
Loans and receivables	400,000,000	400,000,000	400,000,000	399,909,329
Cash and cash equivalents	351,223	317,637	351,223	351,223
Floating rate notes	(400,000,000)	(400,000,000)	(400,000,000)	(399,909,329)
Total	351,223	317,637	351,223	351,223

Interest rate sensitivity

The Group is subject to interest rate risk as its interest income and interest expense is linked to different floating rate bases.

2006	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	Non interest bearing and excluded items	Total
	£	£	£	£	£	£
Assets						
Loans and receivables	-	-	400,000,000	-	-	400,000,000
Sundry debtors	-	-	-	-	2,791,832	2,791,832
Cash and cash equivalents	317,637	-	-	-	-	317,637
Total assets	317,637	-	400,000,000	-	2,791,832	403,109,469
Liabilities						
Floating rate notes	-	-	400,000,000	-	-	400,000,000
Corporation tax payable	-	-	-	-	511	511
Accrued expenses	-	-	-	-	2,816,200	2,816,200
Shareholders funds	-	-	-	-	292,758	292,758
Total liabilities	-	-	400,000,000	-	3,109,469	403,109,469
Asset	-	-	-	-	-	-
Liability	-	-	-	-	-	-
Interest rate sensitivity gap	317,637	-	0	-	(317,637)	-
Cumulative gap	317,637	317,637	317,637	317,637	-	-
2005	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	Non interest bearing and excluded items	Total
	£	£	£	£	£	£
Assets						
Loans and receivables	-	-	399,909,329	-	-	399,909,329
Sundry debtors	-	-	-	-	2,525,117	2,525,117
Cash and cash equivalents	351,223	-	-	-	-	351,223
Total assets	351,223	-	399,909,329	-	2,525,117	402,785,669
Liabilities						
Floating rate notes	-	-	400,000,000	-	(90,671)	399,909,329
Corporation tax payable	-	-	-	-	8,558	8,558
Accrued expenses	-	-	-	-	2,577,205	2,577,205
Shareholders funds	-	-	-	-	290,577	328,215
Total liabilities	-	-	400,000,000	-	2,785,669	402,823,307
Asset	-	-	-	-	-	-
Liability	-	-	-	-	-	-
Interest rate sensitivity gap	351,223	-	(90,671)	-	(260,552)	-
Cumulative gap	351,223	351,223	260,552	260,552	-	-

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.

18 Related party transactions

The Group and Company have identified the following transactions which are required to be disclosed under the terms of IAS 24, "Related Party Disclosures".

The Company has placed deposits with HSBC Bank plc. The balance in these accounts was £317,000 (2005: £Nil).

The share capital and associated debtor balances are the only related party transactions between the Company and its subsidiaries (Note 9).

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.

20 Events after the balance sheet date

The notes issued by Affinity 001 plc matured and were fully repaid on 15 May 2007.

21 Contingent liabilities and commitments

There are no contingent liabilities or capital commitments as at 31 December 2006 (2005: none).