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Prospect 6 (Jersey) Limited

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2005

FC - 022910

Company Registered Number
78542

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Directors' report

The directors present their annual report together with the audited financial statements of the Company for the year ended 31 December 2005.

Principal activities

The principal activity of the Company is the acquisition and servicing of personal loans. The loans are principally financed by the issue of medium term debt raised on the Eurobond market.

Financial results

The Company made a profit for the financial year of £4,554 (2004: £595) which has been taken to reserves. The directors do not recommend payment of a dividend (2004: £nil).

Business review

On 17 October 2005 all Personal Loan receivables in the receivables trust in which the company held an interest 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:

F L Newell
C J Rivers - Alternate to F L Newell
A Gower
P Scull

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

Secretary

Forbrit Secretaries Limited

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. 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 2005 of zero days (2004: zero days), calculated in accordance with the requirements set down in the Companies (Jersey) Law 1991 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

A resolution proposing the reappointment of KPMG Audit Plc will be put to the next General Meeting at which accounts are laid before the Company.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping 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 (Jersey) Law 1991. They have 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

Forbrit Secretaries Limited
Secretary

Liberation Chambers
1/3 The Esplanade
Liberation Square
St Helier
Jersey JE2 3QA

26th July 2006

Independent auditors' report to the member of Prospect 6 (Jersey) Limited

We have audited the financial statements of Prospect 6 (Jersey) Limited for the period ended 31 December 2005 which comprise the profit and loss, balance sheet and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. 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 member for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accouning Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the 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 financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. 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 company is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with 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 financial statements:
- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

3 August 2006

Profit and loss account

For the year ended 31 December	Notes	Discontinued Operations 2005 £	Discontinued Operations 2004 £
Turnover	2	5,036,839	12,813,053
Interest receivable	3	46,425	598,890
Interest payable	4	(2,493,298)	(6,057,853)
Gross profit		2,589,966	7,354,090
Other income		1,655,304	4,739,907
Administrative expenses	5	(4,239,921)	(12,093,402)
Operating profit and profit on ordinary activities before taxation	6	**5,349**	**595**
Tax on profit on ordinary activities	7	(795)	-
Profit for the financial year		**4,554**	**595**

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

The notes on pages 6 to 11 form an integral part of these financial statements.

Balance sheet

As at 31 December

	Notes	2005 £	2004 £
Current assets			
Personal loans - due within one year	8	-	42,846,423
Personal loans - due after more than one year	8	-	25,296,561
Cash at bank and in hand	9	10,532	21,312,556
Creditors - amounts falling due within one year	10	(559)	(9,769,406)
Net current assets		9,973	79,686,134
Corporation tax payable		(795)	-
Creditors - amounts falling due after more than one year	11	-	(79,681,510)
Net assets		**9,178**	**4,624**
Capital and reserves			
Called-up share capital	12	10	10
Profit and loss account	13	9,168	4,614
Shareholders' funds - equity	13	**9,178**	**4,624**

The financial statements on pages 4 to 11 were approved by the Board of Directors on 28th July 2006 and were signed on its behalf by:

F L Newell
Director

The notes on pages 6 to 11 form an integral part of these 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 Company's financial statements.

General

(a) Basis of preparation

The financial statements have been prepared under the historical cost accounting rules and in accordance with the Companies (Jersey) Law 1991 and applicable UK accounting standards. The format of the profit and loss has been adapted from that prescribed in Companies (Jersey) Law 1991 in view of the nature of the business.

Under Financial Reporting Standard ('FRS') 1 (revised 1996), the Company has not prepared a cash flow statement because its parent undertaking, Prospect Heights (Holdings) Limited., which is incorporated in the United Kingdom, prepares consolidated accounts which are publicly available.

As a wholly owned subsidiary of Prospect Heights (Holdings) Limited, the Company has taken advantage of the exemption under FRS 8 not to disclose intercompany transactions within the Prospect Heights (Holdings) Limited Group. The consolidated financial statements of Prospect Heights (Holdings) Limited, within which the Company is included, can be obtained from the address given in note 16.

On 17 October 2005 all personal loan receivables in the receivables trust in which the Company held an interest were sold to HFC Bank Limited, and all outstanding debt was repaid. Accordingly the Company's business activities are considered as discontinued operations.

(b) Turnover

Turnover comprises interest receivable and other finance charges on personal loan receivables.

(c) Servicing fees

Servicing fees are payable by the Company under the terms of the servicing agreement with HFC Bank Limited.

(d) Floating rate notes

The floating rate notes were issued at a discount. The value of the discount is deducted from the principal balance of the notes, and is charged to the profit and loss account on a sum of digits basis, such that the discount will be fully amortised by the earlier of the contractual or expected repayment date of the notes.

(e) Issue costs

Costs relating to the issuance of finance are shown as a reduction of creditors in accordance with FRS 4 'Capital Instruments'. The issue costs have been funded by the fees part of the facility agreement and have been amortised over the life of the floating rate notes. The income to repay the fees part of the facility agreement has been recognised to match the amortisation of these issuer costs.

(f) 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.

2 Turnover

	2005 £	2004 £
Interest received on personal loan receivables	5,036,839	12,813,053

All turnover arose from personal loan receivables and originated in the United Kingdom.

3 Interest receivable

	2005 £	2004 £
Interest receivable on bank deposits and swap income	46,425	598,890

4 Interest payable

	2005 £	2004 £
Interest payable comprises:		
Interest on asset backed floating rate notes	(1,827,092)	(4,726,719)
Interest on subordinated loan	(633,356)	(755,880)
Interest on facility agreement loan	-	(336)
Swap payment	(32,850)	(559,180)
Amortisation of discount on floating rate notes	-	(15,738)
	(2,493,298)	(6,057,853)

Notes to the financial statements (continued)

5 Administrative expenses

	2005	2004
	£	£
Administrative expenses comprise:		
Servicing fees payable	(79,891)	(99,361)
Amortisation of issue costs of floating rate notes	-	(10,540)
Provision for bad and doubtful debts	(1,655,304)	(4,739,907)
Deferred consideration *	(2,446,448)	(7,191,794)
Other expenses	(58,278)	(51,800)
	(4,239,921)	(12,093,402)

* This is total deal revenue that is surplus to the amount required for Prospect 6 (Jersey) Limited to service its liabilities. This surplus is paid to HFC Bank Limited.

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 or received 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 (2004: £nil).

7 Taxation

	2005	2004
	£	£
UK Corporation Tax	795	-
Total current tax and tax on profit on ordinary activities	795	-

The current tax charge for the period is lower than (2004: lower than) the small companies rate of corporation tax in the UK of 19% (2004: 19%). The differences are explained below.

	2005	2004
Current tax reconciliation		
Profit on ordinary activities before tax	5,349	595
Current tax at 19% (2004: 19.25%)	1,016	-
Effects of:		
Marginal relief claimed	(221)	-
Total current tax charge (see above)	795	-
Effective tax rate	15%	0%

8 Personal loans

	2005	2004
	£	£
Securitised personal loans - start of year	68,142,984	141,011,270
Substitutions during the year	-	-
Total redemptions during the year	(35,785,410)	(68,128,379)
Sale of loans	(30,702,270)	-
Movement in provision for bad and doubtful debts*	(1,655,304)	(4,739,907)
Securitised personal loans - end of year	-	68,142,984

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

Remaining maturity:

	2005	2004
1 year or less	-	42,846,423
5 years or less but over 1 year	-	25,296,561
Total	-	68,142,984

On 17 October 2005 all personal loan receivables in the receivables trust in which the Company held an interest were sold to HFC Bank Limited, and all outstanding debt was repaid.

Notes to the financial statements (continued)

9 Cash at bank and in hand

	2005	2004
	£	£
Balance at bank	10,532	20,722,090
Balance held in Guaranteed Investment Contract account	-	590,466
	10,532	21,312,556

10 Creditors - amounts falling due within one year

	2005	2004
	£	£
Amounts owed to HFC Bank Limited	559	7,207,780
Accrued expenses	-	2,561,626
	559	9,769,406

11 Creditors - amounts falling due after more than one year

	2005	2004
	£	£
Class A notes	-	26,068,350
Class B notes	-	23,000,000
Class C notes	-	13,500,000
Subordinated loan	-	11,250,000
Facility agreement - credit	-	5,863,160
	-	79,681,510

On 17 October 2005 all Personal Loan receivables in which the Company held an interest were sold to HFC Bank Limited, and all outstanding debt was repaid.

12 Share capital

	2005	2004
	£	£
Authorised:		
Equity: 1,000 ordinary shares of £1 each	1,000	1,000
Issued, allotted, and fully paid:		
Equity: 10 ordinary shares of £1 each	10	10

Substantial shareholdings:

On 31 December 2005, the following were registered as being beneficially interested in 3% or more of the Company's ordinary share capital:

	Number held	Percentage held
Prospect Heights (Holdings) Limited	10	100%

13 Reserves

	2005	2004
	£	£
Profit and loss account:		
Opening retained profit	4,614	4,019
Retained profit for year	4,554	595
Closing retained profit	9,168	4,614
Reconciliation of movements in shareholders' funds		
Profit for the financial year	4,554	595
Opening shareholders' funds	4,624	4,029
Closing shareholders' funds	9,178	4,624

Notes to the financial statements (continued)

14 Financial instruments

Liquidity risk

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

Maturity of financial liabilities

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

	2005 £	2004 £
More than 5 years	-	73,818,350
Total	-	73,818,350

Interest rate risk

Payments by customers under the Company's loan receivables comprise fixed monthly payments. In contrast, the Company's debt liabilities bear interest at a margin over sterling LIBOR. In order to control its exposure to interest rate risk the Company 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 Company makes payments to the swap counterparty based on the fixed rates defined in the relevant swap agreement and the Company 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 Company does not take any other action to further reduce its interest rate exposure.

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

Interest rate sensitivity

The table below summarises the re-pricing mismatches across the Company'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 interest rate re-pricing date and their final maturity date.

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 £	More than five years £	Non interest bearing and excluded items £	Total £
Assets:							
Personal loans	-	-	-	-	-	-	-
Cash at bank and in hand	10,532	-	-	-	-	-	10,532
Total assets	10,532	-	-	-	-	-	10,532
Liabilities:							
Floating rate notes	-	-	-	-	-	-	-
Subordinated debt	-	-	-	-	-	-	-
Corporation tax payable	-	-	-	-	-	795	795
Other creditors	-	-	-	-	-	559	559
Shareholders funds	-	-	-	-	-	9,178	9,178
Total liabilities	-	-	-	-	-	10,532	10,532
Off balance sheet items:							
Asset	-	-	-	-	-	-	-
Liability	-	-	-	-	-	-	-
Interest rate sensitivity gap	-	-	-	-	-	(10,532)	-
Cumulative gap	10,532	10,532	10,532	10,532	10,532	-	-

Notes to the financial statements (continued)

14 Financial instruments (continued)

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
	£	£	£	£	£	£	£
Assets:							
Personal loans	12,406,764	11,702,589	18,737,070	25,296,561	-	-	**68,142,984**
Cash at bank and in hand	21,312,556	-	-	-	-	-	**21,312,556**
Total assets	**33,719,320**	**11,702,589**	**18,737,070**	**25,296,561**	-	-	**89,455,540**
Liabilities:							
Floating rate notes	62,568,350	-	-	-	-	-	**62,568,350**
Subordinated debt	11,250,000	-	-	-	-	-	**11,250,000**
Corporation tax payable	-	-	-	-	-	-	-
Other creditors	-	-	-	-	-	15,632,566	**15,632,566**
Shareholders funds	-	-	-	-	-	4,624	**4,624**
Total liabilities	**73,818,350**	-	-	-	-	**15,637,190**	**89,455,539**
Off balance sheet items:							
Asset	92,119,483	-	-	-	-	-	**92,119,483**
Liability	92,119,483	-	-	-	-	-	**92,119,483**
Interest rate sensitivity gap	**(40,099,030)**	**11,702,589**	**18,737,070**	**25,296,561**	-	**(15,637,190)**	-
Cumulative gap	**(40,099,030)**	**(28,396,441)**	**(9,659,371)**	**15,637,190**	**15,637,190**	-	-

The interest rate gaps in the above analysis assume that the cash flows under the subordinated interest rate swaps will always offset those under the non-subordinated interest rate swaps. This treatment gives the impression that the Company's interest rate risk position is unhedged. In reality the nature of the subordinated swaps will ensure that the Company remains hedged against movements in interest rates.

Credit risks

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 Company has not attempted to estimate either their market value or replacement cost.

	Contract or underlying principal amounts 2005	Contract or underlying principal amounts 2004
	£	£
Used to manage interest rate risk		
Interest rate swaps	-	92,119,483
Total	-	**92,119,483**
With OECD financial institutions	-	92,119,483
Total	-	**92,119,483**
In not more than one year	-	92,119,483
Total	-	**92,119,483**

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 above) whose book and fair values differ at 31 December.

	Carrying amount 2005	Fair value 2005	Carrying amount 2004	Fair value 2004
	£	£	£	£
Cash at bank	10,532	10,532	21,312,556	21,312,556
Floating rate notes	-	-	(62,568,350)	(62,568,350)
Total	10,532	10,532	(41,255,794)	(41,255,794)

Notes to the financial statements (continued)

15 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

In December 2000, the Company purchased an interest in loan advances of £250 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 £79,891 (2004: £99,824) in servicing fees in the year. At 31 December 2005, HFC Bank Limited was owed £nil (2004: £20,109) in respect of these fees.

During the year, HFC Bank Limited earned £2.4 million (2004: £7.2 million) in relation to deferred purchase consideration, and is owed £nil (2004: £1.7. million) in deferred purchase consideration at the year end.

Transactions with Household Global Funding, Inc

At 31 December 2005 Household Global Funding, Inc., a related company to HFC Bank Limited was owed £nil (2004: £11.25 million) by the Company in respect of a subordinated loan. During the year, Household Global Funding, Inc. earned £0.6 million (2004: £0.8 million) in relation to interest on the subordinated loan, and was owed £nil (2004: £0.2 million) at the year end in respect of the interest.

16 Ultimate parent undertaking

The Company's immediate parent undertaking is Prospect Heights (Holdings) Limited. The smallest and largest group into which the Company is consolidated is Prospect Heights (Holdings) Limited, the consolidated accounts of which are available to the public from its registered office at North Street, Winkfield, Windsor, Berkshire, SL4 4TD.

The entire issued share capital of the immediate parent undertaking 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. The directors consider Prospect Heights (Holdings) Limited to be the ultimate parent and controlling party of the Company.