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Prospect 6 (Jersey) Limited

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2004

Company Registered Number
78542

Contents

Directors' report

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

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 £595 (2003: £1,136) which has been taken to reserves. The directors do not recommend payment of a dividend (2003: £nil).

Business review

On 17 October 2005 all 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
F L Newell
R M C Blackie - resigned 20 April 2004
J Coward (alternate to R M C Blackie) - resigned 20 April 2004
C J Rivers - Alternate to F L Newell
A Gower - appointed 15 December 2004
P Scull - appointed 15 December 2004

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

Basel Corporate Services (Channel Islands) Limited - resigned 20 April 2004
Forbrit Secretaries Limited - appointed 20 April 2004

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 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

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 financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the results for that year. 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; 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 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

27 October 2005

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

We have audited the financial statements on pages 4 to 12.

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 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 the Companies (Jersey) Law 1991 and U.K. accounting standards. Our responsibilities, as independent auditors, are established in Jersey law, the UK 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 (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, or if we have not received all the information and explanations we require for our audit.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the UK 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 of the state of the company's affairs as at 31 December 2004 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
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

15 March 2005

Profit and loss account

For the year ended 31 December

	Notes	Discontinued Operations **2004** £	Discontinued Operations **2003** £
Turnover	2	12,813,053	25,329,170
Interest receivable	3	598,890	2,842,648
Interest payable	4	(6,057,853)	(12,284,691)
Gross profit		7,354,090	15,887,127
Other income		4,739,907	5,136,686
Administrative expenses	5	(12,093,402)	(21,022,531)
Operating profit and profit on ordinary activities before taxation	6	595	1,282
Tax on profit on ordinary activities	7	-	(146)
Profit for the financial year		595	1,136

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 12 form an integral part of these financial statements.

Balance sheet

As at 31 December

	Notes	2004 £	2003 £
Current assets			
Personal loans - due within 1 year	8	42,846,423	33,382,145
Personal loans - due after more than 1 year	8	25,296,561	107,629,125
Cash at bank and in hand	9	21,312,556	40,102,492
Creditors - amounts falling due within one year	10	(9,769,406)	(9,543,801)
Net current assets		79,686,134	171,569,961
Creditors - amounts falling due after more than one year	11	(79,681,510)	(171,565,932)
Net assets		4,624	4,029
Capital and reserves			
Called-up share capital	12	10	10
Profit and loss account	13	4,614	4,019
Shareholders' funds - equity	13	4,624	4,029

The financial statements on pages 4 to 12 were approved by the Board of Directors on 27 October 2005 and were signed on its behalf by:

C J Rivers
Director

The notes on pages 6 to 12 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.

(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

	2004	2003
	£	£
Interest received on personal loan receivables	12,813,053	25,329,170

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

3 Interest receivable

	2004	2003
	£	£
Interest receivable on bank deposits and swap income	598,890	2,842,648

4 Interest payable

	2004	2003
	£	£
Interest payable comprises:		
Interest on asset backed floating rate notes	(4,726,719)	(8,666,115)
Interest on subordinated loan	(755,880)	(668,291)
Interest on facility agreement loan	(336)	(7,142)
Swap payment	(559,180)	(2,819,724)
Amortisation of discount on floating rate notes	(15,738)	(123,419)
	(6,057,853)	(12,284,691)

5 Administrative expenses

	2004	2003
	£	£
Administrative expenses comprise:		
Servicing fees payable	(99,361)	(99,824)
Amortisation of issue costs of floating rate notes	(10,540)	(145,952)
Provision for bad and doubtful debts	(4,739,907)	(5,136,686)
Deferred consideration *	(7,191,794)	(15,591,865)
Other expenses	(51,800)	(48,204)
	(12,093,402)	(21,022,531)

* 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 (2003: £nil).

7 Taxation

	2004	2003
	£	£
UK Corporation Tax	-	146
Total current tax and tax on profit on ordinary activities	-	146

The current tax charge for the period is the starting rate (2003: lower than the effective small companies rate) of corporation tax in the UK of 0% (2003: 19%).

	2004	2003
Current tax reconciliation		
Profit on ordinary activities before tax	595	1,282
Current tax at 0% (2003: 19.25%)	-	247
Effects of:		
Marginal relief claimed	-	(101)
Total current tax charge (see above)	-	146

8 Personal loans

	2004	2003
	£	£
Securitised personal loans - start of year	141,011,270	205,217,256
Substitutions during the year	-	89,104,190
Total redemptions during the year	(68,128,379)	(148,173,490)
Movement in provision for bad and doubtful debts	(4,739,907)	(5,136,686)
Securitised personal loans - end of year	68,142,984	141,011,270
Remaining maturity:		
1 year or less	42,846,423	33,382,145
5 years or less but over 1 year	25,296,561	93,372,184
More than 5 years	-	14,256,941
Total	68,142,984	141,011,270

The personal loans are all due to be repaid at various times before October 2010.

Personal loans are unsecured loans.

Notes to the financial statements (continued)

9 Cash at bank and in hand

	2004	2003
	£	£
Balance at bank	20,722,090	38,977,872
Balance held in Guaranteed Investment Contract account	590,466	1,124,620
	21,312,556	40,102,492

10 Creditors - amounts falling due within one year

	2004	2003
	£	£
Facility agreement - fees loan	-	58,578
Amounts owed to HFC Bank Limited	7,207,780	5,435,873
Corporation tax payable	-	146
Accrued expenses	2,561,626	4,049,204
	9,769,406	9,543,801

11 Creditors - amounts falling due after more than one year

	Face value of discounted notes	Note discount	Total	Face value of discounted notes	Note discount	Total
	2004	2004	2004	2003	2003	2003
	£	£	£	£	£	£
Class A notes	26,068,350	-	26,068,350	118,335,250	(13,345)	118,321,905
Class B notes	23,000,000	-	23,000,000	23,000,000	(1,508)	22,998,492
Class C notes	13,500,000	-	13,500,000	13,500,000	(885)	13,499,115
Subordinated loans			11,250,000			11,250,000
Facility agreement - credit			5,863,160			5,506,960
Deferred costs			-			(10,540)
			79,681,510			171,565,932

During the year £92,266,900 of Class A notes were reedeemed at par. The AAA rated Class A notes in the amount of £26.1 million are due October 2010 and accrue interest at a rate of LIBOR plus 0.25%.

The A rated Class B notes in the amount of £23 million are due October 2010 and accrue interest at a rate of LIBOR plus 0.75%.

The BBB rated Class C notes in the amount of £13.5 million are due October 2010 and accrue interest at a rate of LIBOR plus 1.75%.

The floating rate notes are secured by a fixed charge over the personal loan receivables.

The Company has entered into a subordinated loan agreement and a facility agreement. The facility agreement provides credit and fees facilities.

The fees part of the facility agreement accrues interest at LIBOR plus 1.00%. The subordinated loan accrues interest at LIBOR plus 2.25%.

The subordinated loan and the credit part of the facility agreement may be repaid in whole or in part provided the Company has sufficient assets to meet its obligations on the asset backed floating rate notes.

If the Company has insufficient funds after paying the asset backed floating rate notes in full, it shall only be obliged to repay the subordinated loan to the extent of funds available.

Notes to the financial statements (continued)

12 Share capital

	2004 £	2003 £
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 2004, the following were registered as being beneficially interested in 3% or more of the Company's ordinary share capital:

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

13 Reserves

	2004 £	2003 £
Profit and loss account:		
Opening retained profit	4,019	2,883
Retained profit for year	595	1,136
Closing retained profit	4,614	4,019
Reconciliation of movements in shareholders' funds		
Profit for the financial year	595	1,136
Opening shareholders' funds	4,029	2,893
Closing shareholders' funds	4,624	4,029

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

	2004 £	2003 £
More than 5 years	73,818,350	166,058,972
Total	73,818,350	166,058,972

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.

Notes to the financial statements (continued)

14 Financial instruments (continued)

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.

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
Other creditors	-	-	-	-	-	15,632,566	15,632,566
Shareholders funds	-	-	-	-	-	4,624	4,624
Total liabilities	73,818,350	-	-	-	-	15,637,190	89,455,540
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	-	-

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
	£	£	£	£	£	£	£
Assets:							
Personal loans	9,548,528	8,047,076	15,786,541	93,372,184	14,256,941	-	141,011,270
Cash at bank and in hand	40,102,492	-	-	-	-	-	40,102,492
Total assets	49,651,020	8,047,076	15,786,541	93,372,184	14,256,941	-	181,113,762
Liabilities:							
Floating rate notes	154,819,512	-	-	-	-	(10,540)	154,808,972
Subordinated debt	11,250,000	-	-	-	-	-	11,250,000
Other creditors	58,578	-	-	-	-	14,992,183	15,050,761
Shareholders funds	-	-	-	-	-	4,029	4,029
Total liabilities	166,128,090	-	-	-	-	14,985,672	181,113,762
Off balance sheet items:							
Asset	216,332,735	-	-	-	-	-	216,332,735
Liability	216,332,735	-	-	-	-	-	216,332,735
Interest rate sensitivity gap	(116,477,070)	8,047,076	15,786,541	93,372,184	14,256,941	(14,985,672)	-
Cumulative gap	(116,477,070)	(108,429,994)	(92,643,453)	728,731	14,985,672	-	-

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.

14 Financial instruments (continued)

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 2004 £	Contract or underlying principal amounts 2003 £
Used to manage interest rate risk		
Interest rate swaps	92,119,483	216,332,735
Total	**92,119,483**	**216,332,735**
With OECD financial institutions	92,119,483	216,332,735
Total	**92,119,483**	**216,332,735**
In not more than one year	92,119,483	216,332,735
Total	**92,119,483**	**216,332,735**

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 2004 £	Fair value 2004 £	Carrying amount 2003 £	Fair value 2003 £
Cash at bank	21,312,556	21,312,556	40,102,492	40,102,492
Floating rate notes	62,568,350	62,568,350	154,808,972	154,835,250
Total	83,880,906	83,880,906	194,911,464	194,937,742

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 loan advances of £250.0million 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 £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.

Transactions with Household Global Funding, Inc

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.

Notes to the financial statements (continued)

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.