

DIRECTORS' REPORT

For the year ended December 31, 2009

Corporate Governance

HSH N Funding II (the "Company"), was incorporated on May 26, 2005 as an exempted company with limited liability under the laws of the Cayman Islands. The Company is a wholly owned subsidiary of HSH Nordbank AG (the "Bank") which also provides one out of the three current directors to the Company. The financial results of the Company are consolidated within the Bank's financial statements. The Company does not have any employees. Its day-to-day administration is delegated to Maples Finance Limited, an independent service organization, which also provides two directors to the Company from its employees for a fixed annual fee.

The Directors of the Company who held office during the year are as follows:

David Lopez (appointed January 24, 2008)
Cleveland Stewart (independent) (appointed September 3, 2008)
George Bashforth (independent) (appointed December 11, 2008)

The Directors held no interests in the Company as at December 31, 2009.

Activities and Review of the Development of the Business

The business of the Company is principally limited to the issuance of two classes of preference shares and the investment of the proceeds thereof. The terms of the Company's asset classes are similar to the terms of the Class A Preference Shares and Class B Preference Shares issued and as a result, all cash flows received are passed through or attributed to the holders of those preference shares. The Class A Preference Shareholders are also exposed to all risks the Company faces and the Class B Preference Shareholders transfer the risk to the holders of the Sphere Securities. The value of both classes of preference shares in issue as at December 31, 2009 amounted to US\$990,457,100 (2008: US\$1,090,658,000).

The principal risks the Company faces include (i) credit risk within the various asset classes, mainly the counterparty risk associated with the Bank, and (ii) liquidity risk because an illiquid secondary market could have an adverse effect on the value of the Company's assets and consequently the holders of preference shares. The direct exposure to market risk including changes in interest rates and foreign exchange rates is not significant.

In 2009, the Company was informed by the Bank that the EU Commission has made it clear to the management board of the Bank and its shareholders that it would not retract its requirements under state aid law with respect to servicing and participating in the losses on hybrid capital instruments, including the Company's preference shares. Pursuant to the EU Commission's requirements, the Bank would not be permitted to make any payouts on profit participation capital and silent partnerships in the event of a net loss or balance sheet loss for the fiscal year 2009. Furthermore, such capital instruments, including those held by the Company would have to participate in either the balance sheet loss or net loss for the fiscal year 2009.

As a consequence the Bank has informed the Company that, the instruments described as US\$ 500,000,000 HSH Nordbank Sphere Securities with the ISIN XS0221141400 listed on

Euronext Amsterdam issued on a fiduciary basis by Banque de Luxembourg are affected and no coupon payment will be made for the profit period 2009. Furthermore, these instruments will participate in the Bank's balance sheet loss for the fiscal year 2009 via the Silent Contribution, the Company has acquired in the commercial enterprise of the Bank. The book value of the Bank's silent contribution was reduced by **16.401** percent to **83.599** percent.

In connection with these developments the Company has revised its estimates of payments or receipts for the Silent Contribution and Class B preference shares, and has – for accounting purposes – recalculated the carrying amount of these financial instruments as of December 31, 2009 in accordance with IAS 39.AG8.

As of December 31, 2009 the carrying amount of the Silent Contribution has been reduced by US\$58,396,309 to US\$533,638,413. No profit participation was accrued in 2009.

As of December 31, 2009 the carrying amount of the Class B preference shares has been reduced by US\$100,200,900 to US\$399,799,100.

The Company earned US\$36,276,818 (2008: US\$36,276,962) as scheduled interest income from its asset classes during the year and also paid dividends on the Class B Preference Shares of US\$9,062,500 (2008: US\$36,250,000).

Current market conditions have had a negative impact on the credit ratings and prices of the preference shares issued by the Company to the extent that the Company was not able to earn any income from certain of its assets in 2009 and distribute such earnings to the holders of preference shares as initially scheduled.

It is not intended that the business of the Company will diversify. The Company does not engage in the field of research and development.

Going Concern

Due to the limited recourse nature of the Company's contractual arrangements, the Directors of the Company are of the opinion that the Company will be able to pay its debts as they fall due. Therefore, the financial statements have been prepared on a going concern basis, notwithstanding the current financial position of the Company and the carrying values of the Company's asset classes which were predominantly issued by the Bank.

Whilst the Bank expects to return to profitability in the future, when this may occur cannot currently be predicted.

Results and Allocation

The Company reported a profit for the year of US\$68,983,837 (2008: US\$26,962) and issued US nil Class A Preference Shares.

All potential profit or losses which may crystallize as a result of the Company holding or realizing its asset classes will be attributed to the holders of the preference shares and not to the Company itself.

Management's Statement of Responsibility for Financial Reporting

The financial statements of the Company have been prepared by management. Management is responsible for the preparation and fair presentation of these financial

statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Statement on True and Fair View

The Directors of the Company state that, to the best of their knowledge:

- the financial statements dated as at December 31, 2009, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- this report gives a true and fair view of the state of affairs of the Company as at the balance sheet date and of the course of affairs during the financial year of the Company together with a description of the principal risks the Company faces.

For and on behalf of the Board of Directors of the Company on April 17th 2010



David Lopez, Director

Cleveland Stewart, Director

George Bashforth, Director

Financial Statements of

HSH N FUNDING II

December 31, 2009 and 2008



HSH N FUNDING II

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Independent Auditors' Report to the Shareholder

We have audited the accompanying financial statements of HSH N Funding II ("the Company"), which comprise the statements of financial position as at December 31, 2009 and 2008, and statements of comprehensive income, statements of changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audits to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Independent Auditors' Report to the Shareholder (continued)

Emphasis of Matter

Without further qualifying our opinion, we draw attention to the fact that HSH Nordbank AG's audited financial statements for the year ended December 31, 2009 contain an emphasis of matter paragraph in the audit opinion that the Bank's ability to continue as a going concern is dependent on whether the European Commission will definitely accept the stabilization measures granted by the German Federal States of Hamburg and of Schleswig-Holstein. In addition it is required that the acceptance will be subject only to such provisions

- that the Bank will be able to bear economically within the framework of a reasonable business plan, and,
- in particular, that will not conflict the effect of the stabilization measures that relieves the regulatory capital of the Bank.

KPMG

March 26, 2010

HSH N FUNDING II

Statements of Financial Position

December 31, 2009 and 2008
(stated in United States dollars)

	Note	2009	2008
Assets			
Silent Contribution	3,7	533,638,413	592,034,722
Loan receivable	4,7	553,000,000	553,000,000
Other assets		0	32,500
Cash and cash equivalents	7	9,160,916	74,170
Total assets		US\$ 1,095,799,329	1,145,141,392
Liabilities and equity			
Liabilities			
Class B preference shares	5	399,799,100	500,000,000
Other liabilities		1,528	1,528
		399,800,628	500,001,528
Shareholder's equity			
Share capital	6	10,000	10,000
Class A preference shares	6	590,658,000	590,658,000
Retained earnings		105,330,701	54,471,864
		695,998,701	645,139,864
Total liabilities and equity		US\$ 1,095,799,329	1,145,141,392

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors on March 26, 2010

CLEVELAND STEWART

Director

GEORGE BASHFORTH

Director

HSH N FUNDING II

Statements of Comprehensive Income

Years ended December 31, 2009 and 2008
(stated in United States dollars)

	Note	2009	2008
Income			
Net change in revised discounted cash flows (Class B preference shares)	2(c)(iii), 5	100,200,900	-
Interest income on loan	4,7	36,276,800	36,276,800
Other interest income	7	18	162
		136,477,718	36,276,962
Finance costs			
Class B dividends	5	9,062,500	36,250,000
Net change in revised discounted cash flows (Silent Contribution)	2(c)(iii), 3	58,396,309	-
Net income before operating expenses		69,018,909	26,962
Other expenses		35,072	-
Net income for year, being comprehensive income for year	US\$	68,983,837	26,962

See accompanying notes to financial statements.

HSN FUNDING II

Statements of Changes in Equity

Years ended December 31, 2009 and 2008

(stated in United States dollars)

	Share Capital	Class A Preference Shares	Retained Earnings	Total
Balance at December 31, 2007 (unaudited)	10,000	590,658,000	54,444,902	645,112,902
Comprehensive income for year	-	-	26,962	26,962
Balance at December 31, 2008	10,000	590,658,000	54,471,864	645,139,864
Comprehensive income for year	-	-	68,983,837	68,983,837
Class A dividends paid	-	-	(18,125,000)	(18,125,000)
Balance at December 31, 2009	US\$ 10,000	590,658,000	105,330,701	695,998,701

See accompanying notes to financial statements.

HSH N FUNDING II

Statements of Cash Flows

Years ended December 31, 2009 and 2008

(stated in United States dollars)

	2009	2008
Cash provided by/(applied in):		
Operating activities		
Comprehensive income for year	68,983,837	26,962
Add/(deduct) net changes in non-cash operating balances:		
Net change in revised discounted cash flows (Class B preference shares)	(100,200,900)	-
Net change in revised discounted cash flows (Silent Contribution)	58,396,309	-
Other assets	32,500	(10,000)
	27,211,746	16,962
Financing activities		
Class A dividends paid	(18,125,000)	-
	(18,125,000)	-
Increase in cash and cash equivalents during year	9,086,746	16,962
Cash and cash equivalents at beginning of year	74,170	57,208
Cash and cash equivalents at end of year	US\$ 9,160,916	74,170
Supplementary information on cash flows from operating activities:		
Interest received	36,276,818	36,276,962
Class B dividends paid	US\$ 9,062,500	36,250,000

See accompanying notes to financial statements.

HSH N FUNDING II

Notes to Financial Statements

December 31, 2009 and 2008
(stated in United States dollars)

1. Incorporation and background information

HSH N Funding II (“the Company”) was incorporated on May 26, 2005 as an exempted company with limited liability under the laws of the Cayman Islands for the purpose of carrying on business as an investment company. The Company is a wholly owned subsidiary of HSH Nordbank AG (the “Bank”). The financial results of the Company are consolidated by the Bank.

The objectives for which the Company has been established are limited by the Memorandum of Association to entering into transaction documents and exercising its rights and performing its obligations in connection therewith. The Company issued 500,000 Class B preference shares in the aggregate nominal amount of US\$500,000,000 to Banque de Luxembourg, a société anonyme incorporated in Luxembourg (the “Fiduciary”) and used the proceeds to acquire a silent capital interest in the commercial enterprise (*Handelsgewerbe*) (the “Participation”) of the Bank in the form of a *Stille Gesellschaft* pursuant to an agreement providing for an asset contribution to the Bank in the amount of US\$500,000,000 (the “Silent Contribution”) and dated June 17, 2005 (the “Participation Agreement”).

The Fiduciary financed the purchase of Class B preference shares with proceeds from issuance of US\$500,000,000 HSH Nordbank Silent Participation Hybrid Equity Regulatory (SPHERE) Securities in the denomination of US\$1,000 (the “SPHERE Securities”) on a fiduciary basis at 100% of the principal amounts. The Fiduciary acquired the Class B preference shares at the sole risk of the holders of the SPHERE Securities. The SPHERE Securities are listed on the Euronext Amsterdam Exchange. The Bank has entered into a support undertaking agreement with the Fiduciary that the Company will at all times be in a position to meet its dividend obligations under the Class B preference shares if and when due as contemplated in the Company’s Memorandum and Articles of Association.

In addition, the Company issued 553,000 Class A preference shares to the Bank in the aggregate nominal amount of US\$553,000,000 and used the proceeds to extend a loan documented in the form of a German law governed *Schuldscheindarlehen* to the Bank. The purpose of the loan is to enable the Company to meet its obligations in relation to the Class B preference shares if and when they arise under the Class B preference shares terms.

As at December 31, 2009 and 2008 the Company had no employees. The Company’s registered office is located at Ugland House, George Town, Grand Cayman. The operations of the Company are conducted primarily in United States dollars. Consequently, the functional currency of the financial statements is United States dollars and not the local currency of the Cayman Islands.

Operating expenses of the Company are paid by the Bank, with no obligation for the Company to repay. Accordingly, the Company is economically dependent on the Bank.

The financial statements are presented in United States dollars.

Daily activities of the Company are administered by Maples Finance Limited (“MFL”).

HSN FUNDING II

Notes to Financial Statements (continued)

December 31, 2009 and 2008

(stated in United States dollars)

2. Significant accounting policies

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies have been applied consistently by the Company. Significant accounting policies and their effect on the financial statements are as follows:

(a) Use of estimates

The preparation of financial statements in accordance with IFRSs requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the year. Actual results could differ from those estimates.

(b) Profit participation under the Participation Agreement, interest income and Class B dividends

Profit participation under the Participation Agreement, interest income and Class B dividends are recognised on an accruals basis.

(c) Financial instruments

(i) Classification

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset, or to exchange financial instruments with another enterprise under conditions that are potentially favorable or an equity instrument of another enterprise. Financial assets comprise cash and cash equivalents, Silent Contribution, loan receivable and other assets.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another enterprise under conditions that are potentially unfavorable. Financial liabilities comprise Class B preference shares and other liabilities.

Financial assets that are classified as loans and receivables include cash and cash equivalents, Silent Contribution, loan receivable and other assets. All financial liabilities are classified as financial liabilities measured at amortized cost.

(ii) Recognition

The Company recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

HSN FUNDING II

Notes to Financial Statements (continued)

December 31, 2009 and 2008

(stated in United States dollars)

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Measurement

Financial instruments are measured initially at cost which is the fair value of the consideration given or received.

Subsequent to initial recognition all financial assets are measured at their amortized cost using the effective interest rate method, less impairment losses, if any.

All financial liabilities are subsequently measured at amortized cost, being the amount at which the liability was initially recognized less any principal repayments plus any amortization (accrued interest) of the difference between that initial amount and the maturity amount.

IAS 39.AG8 prescribes that the carrying amount of financial assets or liabilities shall be adjusted if an entity revises its estimates of payments or receipts. The recalculated carrying amount results from computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustments are recognized in the statements of comprehensive income as interest expense for financial assets and interest income for financial liabilities. In subsequent periods, if the carrying amounts of the financial instruments are adjusted again, the change will be reflected in the statements of financial position with the movement included in the statements of comprehensive income.

The application of IAS 39.AG8 has affected the carrying value of both the Silent Contribution and the Class B preference shares for the year ended December 31, 2009, since the estimates of payments and receipts relating to these financial instruments have been revised. Applying IAS 39.AG8 involves substantial assumptions, which are accompanied by uncertainties.

(iv) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

The Company uses the specific identification method to determine gains or losses on derecognition for financial assets that are sold.

HSN FUNDING II

Notes to Financial Statements (continued)

December 31, 2009 and 2008

(stated in United States dollars)

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Impairment of financial assets

Financial assets are reviewed at each statement of financial position date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated based on the present value of discounted cash flows if market prices are not available.

If in a subsequent period the amount of an impairment loss decreased and the decrease can be objectively related to an event occurring, after the write-down, the write-down is reversed through the statements of comprehensive income.

(vi) Specific instruments

Cash and cash equivalents

For the purposes of the statements of cash flows, cash and cash equivalents includes current accounts with original maturities of three months or less.

Silent Contribution

Silent Contribution classified as loans and receivables is measured initially at cost and subsequently measured at amortised cost, being the amount at which the Silent Contribution is measured at initial recognition plus accrued profit participations plus or less adjustments required to comply with the requirements of IAS 39. AG8 (note 2(c)(iii)). Accrued profit participations are recognized in the statements of comprehensive income in the same period as the respective profit period. The accrual is recognized as an increase in the book value of the Silent Contribution in equal instalments starting from September 30 in the year that follows the relevant fiscal year of the Bank/respective profit period. In case the profit participation is excluded in accordance with the terms of the Participation Agreement, the profit participation accrual is cancelled. Both the book value and the accrual are shown as Silent Contribution on the statements of financial position.

Loan receivable

Loan receivable is subsequently measured at amortized cost, being the amount at which the loan receivable is measured at initial recognition minus principal repayments, and minus any write down for impairment or uncollectibility. The loan receivable is interest bearing with interest income being recognized in the statements of comprehensive income.

HSH N FUNDING II

Notes to Financial Statements (continued)

December 31, 2009 and 2008

(stated in United States dollars)

2. Significant accounting policies (continued)

(c) Financial instruments (continued)

(vi) Specific instruments (continued)

Class B preference shares

Class B preference shares are classified as a financial liability and measured at amortised cost. Dividends thereon are recognised as interest expense in the statements of comprehensive income as accrued.

(d) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when a signed agreement clearly defines the enforceable right of the Company and another party to settle on a net basis or realize the asset and settle the liability simultaneously.

3. Silent Contribution

The Company acquired a silent capital interest in the aggregate amount of US\$500,000,000 (2008: US\$500,000,000) in the commercial enterprise of the Bank in the form of the Participation pursuant to the Participation Agreement dated June 17, 2005 providing for an asset contribution to the Bank in the amount of US\$500,000,000 (2008: US\$500,000,000).

The Participation Agreement has no fixed redemption date and may only be redeemed when terminated by the Bank. The Bank may, if tax or regulatory changes occur, terminate the Participation Agreement only after providing two years notice thereof and approval therefore has been given by the German Banking Supervisory Authority.

Pursuant to terms of the Participation Agreement profit participations will accrue on the principal amount for each fiscal year of the Bank or part thereof. No profit participations accrues to the extent payment thereof would lead to or increase an annual balance sheet loss, if there has occurred a reduction which has not yet been fully restored, in the case of regulatory interventions or if the termination date falls within such period.

The Company may share in the losses of the Bank after allocation to/from its reserves and retained earnings up to the principal amount of the Silent Contribution. Any such losses will reduce the principal amount of the Silent Contribution. If at any time, the principal amount of the Silent Contribution is reduced on account of a loss, the principal amount of the Silent Contribution will be re-credited in the years subsequent in which profits are recorded, provided that at no time shall the principal amount of the Silent Contribution be more than the principal amount of the Silent Contribution on the date of the Participation Agreement. Independently from these contractual regulations, which legally apply, IAS39.AG8 is applicable for purposes of accounting to reflect share in losses (note 2(c) (iii)).

HSN FUNDING II

Notes to Financial Statements (continued)

December 31, 2009 and 2008

(stated in United States dollars)

3. Silent contribution (continued)

At December 31, 2009 the balance on the Silent Contribution was US\$533,638,413 (2008: US\$592,034,722) comprising the initial Silent Contribution of US\$500,000,000, the reduction arising from adjustments due to IAS39.AG8 of US\$58,396,309 (2008: US\$Nil), and accrued profit participations of US\$92,034,722 (2008: US\$92,034,722).

Of the profit participations accrued in 2008, US\$73,909,722 was recognised as part of the book value of the Silent Contribution and US\$18,125,000 was booked as an accrual for the profit period 2007. The accrual became part of the book value of the Silent Contribution in equal instalments on March 30, 2009 and June 30, 2009.

Due to the Bank incurring an operating loss during the year ended December 31, 2009, profit participation accrued in the Company for the year ended December 31, 2009 was US\$Nil (2008: US\$Nil).

4. Loan receivable

On June 17, 2005 the Company entered into a term loan agreement, (the "Loan Agreement") with the Bank under which the Company has made a US\$553,000,000(2008: US\$553,000,000) term loan facility in the form of a German law governed *Schuldscheindarlehen* available to the Bank.

Interest is charged on the loan at a rate of 6.56% p.a. and the loan will mature on June 30, 2036.

5. Class B preference shares

The Company issued 500,000 Class B preference shares to the Fiduciary. The purchase was funded from the issuance of US\$500,000,000 (2008: US\$500,000,000) SPHERE Securities.

At December 31, 2009 the balance of the Class B preference shares was US\$399,799,100 (2008: US\$500,000,000) comprising the initially issued amount of US\$500,000,000 and adjustments due to IAS 39.AG8 of US\$100,200,900 (2008: US\$Nil).

Rights attaching to Class B preference shares:

- i. Each Class B preference shareholder has a right to receive an annual dividend on each Class B preference share held, calculated, declared and paid based on the specification in the Articles of Association. Dividends are paid in cash.
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HSN FUNDING II

Notes to Financial Statements (continued)

December 31, 2009 and 2008

(stated in United States dollars)

5. Class B preference shares (continued)

Rights attaching to Class B preference shares (continued):

- ii. On winding –up of the Company or other return of capital (other than purchase or redemption of Class B preference shares), the Class B preference shareholders will be entitled to share in the Company's rights to interest accrued under the Loan Agreement, repayment amount under the Participation Agreement, interest on the repayment amount and the Company's rights to funding of the Luxembourg gross-up amount (the "Class B Ring-Fenced Assets"). No other holders of shares in the Company will be entitled to the Class B Ring-Fenced Assets. If the value of claims of the Company's creditors exceed the Company's assets (minus the Class A Ring-Fenced Assets and the Class B Ring-Fenced Assets), the rights of the Class B preference shareholders in the assets of the Company will rank junior to the rights of Class A preference shareholders up to an amount equal to the sum of the loan repayment amount under the Loan Agreement (plus amounts which have actually been received thereunder and minus amounts which have been received and passed on to Class A preference shareholders) , but senior to the holders of other shares in the Company up to an amount equal to the Class B Ring-Fenced Assets (plus amounts which have actually been received thereunder and minus amounts which have been received and passed on to Class B preference shareholders).
 - iii. The Class B preference shareholders shall be entitled to receive notice of general meetings of the Company but shall not be entitled to attend and vote thereat.
 - iv. The Company will, forthwith upon becoming aware that the Class B preference shares will be redeemed, notify the Class B preference shareholders of (A) the date on which they will be redeemed, and (B) the amount of payment in cash.
 - v. The Company shall make all payments to the Class B preference shareholders pursuant to terms of the Articles of Association without any tax deduction, unless a tax deduction is required by law.
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HSN FUNDING II

Notes to Financial Statements (continued)

December 31, 2009 and 2008

(stated in United States dollars)

6. Share capital

	2009	2008
Authorised:		
10 Ordinary shares of US\$1,000 each	10,000	10,000
1,050,000 Class A preference shares of US\$1,000 each	1,050,000,000	1,050,000,000
	US\$ 1,050,010,000	1,050,010,000
Issued and fully paid:		
10 Ordinary shares of US\$1,000 each	10,000	10,000

During the year ended December 31, 2009, there were no changes to issued and fully paid Ordinary shares.

Issued and fully paid Class A preference shares:

	2009 Number of shares	2009 US\$	2008 Number of shares	2008 US\$
Balance at beginning of year	590,658	590,658,000	590,658	590,658,000
Balance at end of year	590,658	US\$ 590,658,000	590,658	US\$ 590,658,000

(a) *Rights attaching to Class A preference shares:*

- i. Each Class A preference shareholder has a right to receive annual interim and final dividends on each Class A preference share held calculated based on the Articles of Association. Interim dividends are not paid by cash but by issue of such number of Class A preference shares, the aggregate par value of which equals the amount of such declared interim dividend. Final dividends are paid in cash.

HSN FUNDING II

Notes to Financial Statements (continued)

December 31, 2009 and 2008

(stated in United States dollars)

6. Share capital (continued)

(a) Rights attaching to Class A preference shares (continued):

- ii. On winding up of the Company or other return of capital (other than purchase or redemption of Class A preference shares), the Class A preference shareholders will be entitled to share in the Company's rights to the loan repayment amount under the Loan Agreement (the "Class A Ring-Fenced Assets"). No other holders of shares in the Company will be entitled to the Class A Ring-Fenced Assets. If the value of claims of the Company's creditors exceed the Company's assets (minus the Class A Ring-Fenced Assets and the Class B Ring-Fenced Assets), the rights of the Class A preference shareholders in the assets of the Company will rank senior to the rights of holders of other shares in the Company, up to an amount equal to the Class A Ring-Fenced Assets (plus amounts which have actually been received thereunder and minus amounts which have been received and passed on to Class A preference shareholders)
 - iii. The Class A preference shareholders shall be entitled to receive notice of general meetings of the Company and shall be entitled to vote thereat.
 - iv. Class A preference shares may only be redeemed contemporaneously with redemption of the Class B preference shares or after the Class B preference shares have been redeemed. Class A preference shares may be redeemed at the option of the Class A preference shareholder or the Company by notice to the other. The Class A preference shares will be redeemed in an amount equal to the loan repayment amount under the Loan Agreement and aggregate profit participations under the Participation Agreement. The Company may set off its obligation to pay cash dividends in accordance with the terms of the Articles of Association against obligations owing to the Company by the Class A preference shareholder in respect of interest accrued and due but unpaid under the Loan Agreement.
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HSH N FUNDING II

Notes to Financial Statements (continued)

December 31, 2009 and 2008

(stated in United States dollars)

7. Related party balances and transactions

The Company is controlled by the Bank, which is considered as related party.

The following transactions and balances with the bank are disclosed below:

	Note	2009	2008
Statements of financial position:			
Silent Contribution	3	533,638,413	592,034,722
Loan receivable	4	553,000,000	553,000,000
Cash and cash equivalents		9,160,916	74,170
Statements of comprehensive income:			
Interest income on loan	4	36,276,800	36,276,800
Other interest income		18	162

Included in the cash balance at December 31, 2009 an amount of US\$9,069,128 (2008: US\$Nil) attributable to the Class A preference shareholder and will be a component of the total Class A cash dividend to be declared on September 30, 2010.

8. Credit, liquidity and market risk

The Company's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which they invest. The most significant type of financial risk to which the Company is exposed is credit risk.

The nature and extent of the financial instruments outstanding at the date of the statements of financial position and the risk management policies employed by the Company are discussed below:

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange clearing house.

The Company is potentially exposed to credit risk on the Silent Contribution, loan receivable and other assets and from its exposure on its cash and cash equivalents. The counterparty of these items is solely HSH Nordbank AG. The carrying amounts of financial assets best represent the maximum credit risk exposure at the statement of financial position date.

HSH N FUNDING II

Notes to Financial Statements (continued)

December 31, 2009 and 2008

(stated in United States dollars)

8. Credit, liquidity and market risk (continued)

Credit risk (continued)

As at December 31, 2009 and 2008, the Company's financial assets exposed to credit risk amounted to the following:

	Note	2009	2008
Silent Contribution	3	533,638,413	592,034,722
Loan receivable	4	553,000,000	553,000,000
Other assets		-	32,500
Cash and cash equivalents		9,160,916	74,170
	US\$	1,095,799,329	1,145,141,392

The Class B preference shareholders bear the risk of the Silent Contribution and the Class A preference shareholders bear the credit risk of the loan and its interest receivable. The balance of the Silent Contribution comprises adjustments due to IAS 39.AG8 of US\$58,396,309.

Liquidity risk and refinancing risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The timing and terms of cash inflows from Silent Contribution and loan receivable are similar to cash outflows on accounts of Class A preference shares and Class B preference shares. As such, the Company is deemed to have insignificant exposures to liquidity risk and refinancing risk.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

The terms of the Loan Agreement and Participation Agreement are similar to terms of Class A preference shares and Class B preference shares. Hence, the entire market risk of loan receivable and Silent Contribution are passed onto Class A preference shares and Class B preference shares. As such, the Company is deemed to have insignificant exposures to market risk or interest rate risk.

The majority of the Company's assets, liabilities, income and expenses are denominated in United States dollar the reporting currency of these financial statements. As such, the Company is deemed to have no significant exposure to currency risk.

HSH N FUNDING II

Notes to Financial Statements (continued)

December 31, 2009 and 2008

(stated in United States dollars)

9. Taxation

There are no taxes on income or gains in the Cayman Islands and the Company has received an undertaking from the Governor in Cabinet of the Cayman Islands exempting it from all local income, profits and capital taxes until 2025 should such taxes be enacted. Accordingly, no provision for income taxes is included in these financial statements.

10. New pronouncements

Relevant standards and amendments issued prior to December 31, 2009 but not effective until future periods:

IFRS 9 – *Financial Instruments* (effective from January 1, 2013) is expected to impact the Company as the Company does fall within the scope of this new standard.

IAS 24 – *Related Party Disclosures* (Revised and effective January 1, 2011), is expected to impact the Company as the Company does fall within the scope of this new standard.

IAS 27 – *Consolidated and Separate Financial Statements* (Amended and effective July 1, 2009), is expected to impact the Company as the Company does fall within the scope of this new standard.

IAS 39 – *Embedded Derivatives – Amendment to IAS Financial Instruments: Recognition and Measurement* (Amended and effective July 1, 2009), is not expected to impact the Company as the Company does not fall within the scope of this new standard.

IFRIC 9 – *Reassessment of Embedded Derivatives* (Amended and effective July 1, 2009), is not expected to impact the Company as the Company does not fall within the scope of this new standard.

The amendments are effective for annual periods beginning on or after July 1, 2009, with early adoption permitted.

At this time, the Company is in the process of reviewing the impact, if any, of the above amendments on the Company's financial statements.
