

# **Preferred Group Limited**

## **Report and financial statements**

30 November 2010

Registered No 4192432

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COMPANIES HOUSE

**Directors**

A Brereton  
R Harper

**Auditors**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

**Registered Office**

Lehman Brothers  
Level 23  
25 Canada Square  
London  
E14 5LQ

## Director's Report

The directors present this report and financial statements for Preferred Group Limited (with the Company Registration No 4192432) (the "Company") for the year ended 30 November 2010

### Principal activities

The Company acts as an investment holding company. This activity commenced with the acquisition of Preferred Mortgages Limited on 25 May 2001, of which it owns the entire issued share capital. The principal activity of Preferred Mortgages Limited is the provision of loans secured on properties in the United Kingdom.

### Results and dividends

The results for the year are shown in the profit and loss account on page 7.

The directors do not recommend the payment of a dividend for the year (2009 £nil).

### Business review and future developments

The Company has not traded during the year, however it reported a profit after tax of £28,547. In the year ended 30 November 2010 the Company's expenses were paid by a subsidiary company, Preferred Mortgages Limited.

On 2 April 2008 Preferred Mortgages Limited announced a suspension of its mortgage lending activities.

On 29 August 2008 the Company resolved to increase the authorised share capital to £25,000,001 by the creation of 25,000,000 £1 ordinary shares. The additional shares were fully allotted, issued and paid up by Preferred Holdings Limited. The Company used the additional capital to invest in a further £25,000,000 £1 ordinary shares in Preferred Mortgages Limited.

On 15 September 2008, the ultimate parent undertaking Lehman Brothers Holdings Inc., filed for Chapter 11 bankruptcy protection.

The directors believe the Company's activities will remain unchanged for the foreseeable future.

The Company received no dividend from Preferred Mortgages Limited (2009 £nil).

### Going concern

Despite the current impairment of the Company's investment, the directors continue to prepare the financial statements on a going concern basis as they believe the Company has sufficient net assets to continue in its activities for the foreseeable future. In addition Preferred Mortgages Limited, the company's subsidiary undertaking, has agreed to provide support for the ongoing running costs of the company as would be required to enable the Company to meet its future obligations as they fall due.

### Directors

The directors who served the company during the year were as follows:

A Brereton (appointed 20 January 2010)

R Harper (appointed 20 January 2010)

## Director's Report

### Policy and practice on payment of creditors

The Company does not follow any stated code on payment practice. It is the Company's policy to agree terms of payment with suppliers when agreeing the terms of each transaction and to abide by those terms. Standard terms provide for payment of all invoices within 30 days after the date of the invoice, except where different terms have been agreed with supplier at the outset. It is the policy of the Company to abide by the agreed terms of payment. There are no creditor days of suppliers' invoices outstanding at the year-end (2009 nil days).

### Principal risks and uncertainties

#### Financial instrument risks

The financial instruments held by the Company comprise borrowings, investments and receivables that arise directly from its operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

#### Credit risk

Credit risk is the risk that intercompany debtors will not be able to meet their obligations as they fall due. The ongoing credit risk of these obligations is monitored by the directors.

#### Liquidity risk

Liquidity risk is the risk that investment income receivable by the Company will not arise on a timely manner to meet the Company's obligations as they fall due. The ongoing liquidity risk is closely monitored by the directors.

### Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditors

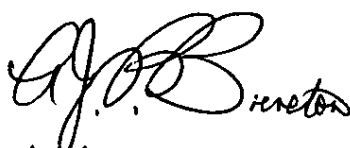
A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board

Tony Brereton

Director

Date

  
16/11/2011

## Statement of director's responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they 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 these 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 that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditors' report**

**to the members of Preferred Group Limited**

We have audited the financial statements of Preferred Group Limited for the year ended 30 November 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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**

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies in the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on the financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 November 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

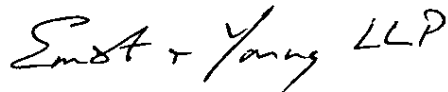
## **Independent auditors' report**

**to the members of Preferred Group Limited**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Andrew Woosey (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

Date 30 Nov 2011

## Profit and loss account

for the year ended 30 November 2010

	Notes	2010 £000	2009 £000
Impairment of investment		–	(24,314)
<b>Profit(loss) on ordinary activities before taxation</b>	2	–	(24,314)
Tax	3	29	–
<b>Profit/(loss) on ordinary activities after taxation</b>	9	29	(24,314)

All activities are continuing activities

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £28,547 in the year ended 30 November 2010 (2009 loss of £24,313,568)

These are derived from continuing operations

The notes on pages 9 to 13 form part of these financial statements



## Balance sheet

at 30 November 2010

	Notes	2010 £000	2009 £000
<b>Fixed assets</b>			
Net Investments	5	16,390	16,390
<b>Current assets</b>			
Debtors amounts falling due within one year	6	9,790	9,790
<b>Total current assets</b>		9,790	9,790
<b>Creditors</b> amounts falling due within one year	7	(484)	(513)
<b>Net current assets</b>		9,306	9,277
<b>Total assets less current liabilities</b>		25,696	25,667
<b>Net assets</b>		25,696	25,667
<b>Capital and reserves</b>			
Called up share capital	8	25,000	25,000
Capital contribution	8	24,287	24,287
Profit and loss account	9	(23,591)	(23,620)
<b>Shareholders' funds</b>	9	25,696	25,667

The notes on pages 9 to 13 form part of these financial statements

The financial statements were approved by the board of directors and were signed on its behalf by

Tony Brereton  
Director



Date

16/11/2011

## Notes to the financial statements

at 30 November 2010

### 1. Accounting policies

#### Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and have been drawn up on the historical cost convention. The financial statements have been prepared on a going concern basis.

#### Group financial statements and schedule 5 disclosures

The Company as a parent undertaking is required to prepare group financial statements by section 399 of the Companies Act 2006 and Financial Reporting Standard (FRS) 2 "Accounting for Subsidiary Undertakings". The company has claimed exemption from preparing group financial statements under section 400 of the Companies Act 2006 as it is itself a subsidiary undertaking and will be included in the group financial statements of Resetfan Limited.

#### Going concern

Despite the current impairment of the Company's investment, the directors continue to prepare the financial statements on a going concern basis as they believe the Company has sufficient net assets to continue in its activities for the foreseeable future. In addition Preferred Mortgages Limited, the company's subsidiary undertaking, has agreed to provide support for the ongoing running costs of the company as would be required to enable the Company to meet its future obligations as they fall due.

#### Investments

Investments in subsidiary undertakings are stated at cost less any impairment where there has been reduction in the recoverable amount of a fixed asset below its carrying amount.

#### Taxation

The charge for taxation is based on the profit for the period 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 in respect of all timing differences that have originated but not reversed at the balance sheet date where transaction or events that result in an obligation to pay more, or a right to pay less tax in the future, have occurred at the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the reversal of the underlying timing differences can be deducted. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### Cash Flow Statement and Related Party Disclosure

The Company has taken advantage of the exemption under FRS 1 (revised), "Cash Flow Statement" and has not produced a cash flow statement, since it is wholly owned subsidiary and its intermediate parent undertaking, Resetfan Limited, prepares consolidated financial statements that are publicly available and include a cash flow statement. The Company is also exempt under the terms of FRS 8, "Related Party Disclosures", from disclosing related party transactions with entities that are part of the Resetfan Limited group.

### 2. Profit/(loss) on ordinary activities before taxation

The auditors' remuneration is borne by the Company's subsidiary undertaking, Preferred Mortgages Limited, and is disclosed in the financial statements of that company.

## Notes to the financial statements

at 30 November 2010

### 3. Tax on profit/(loss) on ordinary activities

#### (a) Tax on profit/(loss) on ordinary activities

The tax charge is made up as follows

	2010 £000	2009 £000
<i>Current tax</i>		
UK corporation tax on the loss for the year	-	-
Adjustments in respect of prior periods	(29)	-
<b>Total current tax (note 3 (b))</b>	<b>(29)</b>	<b>-</b>

#### (b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below

	2010 £000	2009 £000
Profit/(loss) on ordinary activities before tax	-	(24,314)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009 28%)	-	(6,808)
<i>Effects of</i>		
Expenses not deductible for tax purposes	-	6,808
Adjustments in respect of prior periods	(29)	-
	<b>(29)</b>	<b>-</b>

Losses of £38,925 resulting in a deferred tax asset of £10,510 have not been recognised The deferred tax asset has not been recognised due to the uncertainty surrounding the company's future profitability

Legislation was introduced in the Finance (No 2) Act 2010 to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011 The effect of this reduction is reflected in the deferred tax asset not recognised disclosed in the accounts On 23 March 2011 as part of the 2011 Budget, the UK government has announced its intention to legislate to reduce the rate to 26% with effect from 1 April 2011 and further by 1% per annum falling to 23% with effect from 1 April 2014 The reduction to 26% has subsequently been enacted under the provisions of the Provisional Collective of Taxes Act 1968

### 4. Directors and employees

The Company has no employees (2009 none) The directors received no remuneration from the Company during the year (2009 £nil) Directors' remuneration for the services to the company is paid for by its parent undertaking Resefan Limited and is disclosed in the financial statements of that company

## Notes to the financial statements

at 30 November 2010

### 5. Investments

	2010 £000	2009 £000
Cost		
At the beginning of year	40,704	40,704
Investment in subsidiary	–	–
Cost at the end of the year	40,704	40,704
Impairment losses		
At the beginning of year	(24,314)	–
During the year	–	(24,314)
Impairment losses at the end of the year	(24,314)	(24,314)
Investment carrying value	16,390	16,390

Details of investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows

<i>Subsidiary undertakings</i>	<i>Country of incorporation</i>	<i>Principal Activity</i>	<i>Class</i>	<i>Class and percentage of ordinary shares held</i>
Preferred Mortgages Limited	England and Wales	Mortgage Lender	Ordinary £1	100%
Preferred Funding Five Limited*	England and Wales	Mortgage Lender	Ordinary £1	100%
Preferred Mortgages Residuals One Limited*	England and Wales	Residual Financing	Ordinary £1	100%
Preferred Mortgages Residuals 2 Limited*	England and Wales	Residual Financing	Ordinary £1	100%

\*held indirectly

### 6. Debtors: amounts falling due within one year

	2010 £000	2009 £000
Amounts owed by group undertakings	9,790	9,790
	9,790	9,790

## Notes to the financial statements

at 30 November 2010

### 7. Creditors: amounts falling due within one year

	2010 £000	2009 £000
Amounts owed to group undertakings	380	380
Corporation tax	104	133
	<u>484</u>	<u>513</u>

### 8. Issued share capital

	2010 £	2009 £
Authorised ordinary shares of £1 each	25,000,001	25,000,001
Allotted, called up and fully paid ordinary share of £1	<u>25,000,001</u>	<u>25,000,001</u>

Each ordinary share carries the right to one vote at general meetings of the Company and ranks pari passu for all other purposes regardless of the price they were issued

In 2008, the Parent Company gifted the Company a capital contribution by virtue of writing off its debt of £24,287,000. No additional shares were issued

### 9. Movement on reserves

	Share Capital account £000	Share Capital Contribution £000	Profit and loss account £000	Total £000
Balance at 1 December 2009	25,000	24,287	(23,620)	25,667
Retained profit for the year	–	–	29	29
Balance at 30 November 2010	<u>49,287</u>	<u>24,287</u>	<u>(23,591)</u>	<u>25,696</u>

### 10. Reconciliation of shareholders' funds

	2010 £000	2009 £000
Profit/(loss) for the financial year	29	(24,314)
Net increase/(decrease) to shareholders' funds	<u>29</u>	<u>(24,314)</u>
Opening shareholders' funds	25,667	49,981
Closing shareholders' funds	<u>25,696</u>	<u>25,667</u>

## Notes to the financial statements

at 30 November 2010

### 11. Ultimate parent undertaking and controlling party

The Company is controlled by its parent undertaking Preferred Holdings Limited, which is registered and operates in the United Kingdom

The ultimate parent undertaking of Preferred Holdings Limited is Lehman Brothers Holdings Inc which is incorporated in the state of Delaware in the United States of America. On September 2008, the ultimate parent undertaking Lehman Brothers Holding Inc, filed for Chapter 11 bankruptcy protection

The largest and smallest group in which the results of the Company are consolidated is that headed by Resefan Limited registered in England and Wales. The financial statements of the Resefan Limited group are available from 23<sup>rd</sup> Floor, 25 Canada Square, London E14 5LQ respectively