Preferred Group Limited

Report and Financial Statements

30 November 2009
Registered No 4192432

Registered No 4192432

Directors

A Brereton
R Harper

Secretary

TMF Corporate Secretarial Services
Pellipar House 1st Floor
9 Cloak Lane
London
EC4R 2RU

Auditors

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

Registered Office

6 Broadgate
London
EC2M 2QS

Director's report

The directors present this report and financial statements for the year ended 30 November 2009

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

Business review and future developments

The Company has not traded during the year, however it reported an operating loss of £24,313,568 as a result of impairment of investment In the year ended 30 November 2009 the Company's expenses were paid by a subsidiary company, Preferred Mortgages Limited

On 2 April 2008 Preferred Mortgages Limited announced a suspension of their 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 company Lehman Brothers Holdings Inc , filed for Chapter 11 bankruptcy protection

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

The Company received no dividend from Preferred Mortgages Limited (2008 £nil)

Results

The results for the year are shown in the profit and loss account on page 9

Directors

The directors, who held office during the year, or after the year end, were as follows

A Attia	(resigned 12 January 2009)
A Brereton	(appointed 20 January 2010)
P Chambers	(resigned 14 October 2009)
R Harper	(appointed 20 January 2010)
S Staid	(resigned 5 January 2009)

Dividend

The directors did not recommend the payment of a dividend for the year (2008 £nil)

Going concern

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 Current impairment of investment has no significant impact on the going concern status and Preferred Mortgages Limited 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

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

Director's report

abide by the agreed terms of payment There are no creditor days of suppliers' invoices outstanding at the year-end (2008 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, interest rate 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 borrowers will not be able to meet their obligations as they fall due The ongoing credit risk of these obligations is monitored by the directors

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar Where this is not possible the Company considers the use of derivative financial instruments to mitigate any residual interest rate risk

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 group's auditor, each director has taken all the steps that he is obliged to take as director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Director's report

Auditors

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

Approved by the board of directors and signed on behalf of the Board

R. Harper

Richard Harper

Director

Date 27 08. 2010

Statement of director's responsibilities

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

Company law requires the directors to prepare 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 judgments and accounting 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 adequate 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 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 15 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 5, 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 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

Opinion on 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 2009 and of its loss 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

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

Ernst & Young LLP

Andrew Woosey (Senior Statutory Auditor)

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

London

Date 31 . 8 . 10

Profit and loss account

for the year ended 30 November 2009

	Notes	2009 £000	2008 £000
Interest receivable and similar income		–	373
Operating expenses		–	(8)
Impairment of investment		(24,314)	–
(Loss)/Profit on ordinary activities before taxation	2	(24,314)	365
Taxation	3	–	(104)
(Loss)/Profit on ordinary activities after taxation	9	(24,314)	261

All of the activities are continuing activities and there are no other gains or losses recognised in the current financial statements other than those stated in the profit and loss account

The notes on pages 11 to 17 form part of these financial statements

Balance sheet
at 30 November 2009

	Notes	2009 £000	2008 £000
Fixed assets			
Net Investments	5	16,390	40,704
Current assets			
Debtors			
Amounts falling due within one year	6	9,790	9,790
Total current assets		9,790	9,790
Creditors: amounts falling due within one year	7	(513)	(513)
Net current assets		9,277	9,277
Total assets less current liabilities		25,667	49,981
Net assets		25,667	49,981
Capital and reserves			
Called up share capital	8	25,000	25,000
Capital contribution	8	24,287	24,287
Profit and loss account	9	(23,620)	694
Equity shareholders' funds	9	25,667	49,981

The notes on pages 11 to 17 form part of these financial statements

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

R. Harper

Richard Harper

Director

Date 27. 08. 2010

Cashflow statement

For the year ended 30 November 2009

	Notes	2009 £000	2008 £000
Net cash inflow /(outflow) from operating activities	11	–	103,971
Taxation			
Corporation tax paid		–	(104,000)
Net cash (outflow)/inflow before management of liquid resources and financing		–	(29)
Financing			
Decrease in loans from group companies		–	–
Increase/(decrease) in cash in year		–	(29)
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in year		–	(29)
Change in net cash resulting from cash flows		–	(29)
Movement in net funds		–	(29)
Opening net funds		–	29
Closing net funds		–	–

The notes on pages 11 to 17 form part of these financial statements

Notes to the financial statements

at 30 November 2009

1. 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

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 accounts and schedule 5 disclosures

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

Fixed asset 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 considers 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

Notes to the financial statements

at 30 November 2009

2. (Loss)/profit on ordinary activities before taxation

Profit on ordinary activities before taxation is not stated after charging auditors' remuneration as this is borne by the Company's subsidiary undertaking, Preferred Mortgages Limited, and is disclosed in the financial statements of that company

3. Tax on (Loss)/profit on ordinary activities

(a) Analysis of tax charge in the period

	2009	*2008*
	£000	*£000*
Current tax		
UK corporation tax on profits in the period	–	104
Total current tax (note 3 (b))	–	104

(b) Factors affecting the tax charge in the period

The tax assessed for the period is equal than the standard rate for current corporation tax in the UK of 28% (2008 28 67%) The factors affecting the tax charge are explained below

	2009	*2008*
	£000	*£000*
(Loss)/profit on ordinary activities before tax	(24,314)	365
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2008 28 67%)	(6,808)	102
Effects of		
Other tax rates	–	2
Expenses not deductible for tax purposes	6,808	–
	–	104

Losses of £ 38,925 resulting in a deferred tax asset of £10,899 have not been recognised The deferred tax asset has not been recognised due to the uncertainty surrounding the company's future profitability

4. Directors and employees

The Company has no employees (2008 none) The directors received no remuneration from the Company during the year (2008 £nil)

Notes to the financial statements

at 30 November 2009

5. Fixed asset investments

	2009	*2008*
	£000	*£000*
Cost		
At the beginning of Year	40,704	15,704
Investment in subsidiary	–	25,000
Cost at the end of the year	40,704	40,704
Impairment losses		
At the beginning of Year	–	–
During the Year	(24,314)	–
Impairment losses at the end of the year	(24,314)	–
Investment carrying value	16,390	40,704

During the year impairment losses were recognised in respect of the Company's investment in Preferred Mortgages Limited

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

Subsidiary undertakings	*Country of incorporation*	*Principal Activity*	*Class*	*Class and percentage of ordinary shares held*
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

	2009	*2008*
	£000	*£000*
Amounts owed by related companies	9,790	9,790
	9,790	9,790

Notes to the financial statements

at 30 November 2009

7. Creditors: amounts falling due within one year

	2009 £000	2008 £000
Amounts owed to related companies	380	380
Corporation tax	133	133
	513	513

8. Called up share capital

	2009 £	2008 £
Authorised ordinary shares of £1 each	25,000,001	25,000,001
Allotted, called up and fully paid ordinary share of £1	25,000,001	25,000,001

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

During the prior year the parent company gifted the company a capital contribution by virtue of writing its debt of £24,287,000 No additional shares were issued

9. Statement of movement on reserves

	Share capital account £000	*Profit and loss account £000*	*Total £000*
Balance at 1 December 2008	49,287	694	49,981
Retained loss for the year	–	(24,314)	(24,314)
Balance at 30 November 2009	49,287	(23,620)	25,667

Notes to the financial statements

at 30 November 2009

10. Reconciliation of movements in shareholders' funds

	2009 £000	2008 £000
(Loss)/profit for the financial year	(24,314)	261
Net (decrease)/increase to shareholders' funds	(24,314)	261
Opening shareholders' funds	49,981	24,720
Additional Share capital	–	25,000
Closing shareholders' funds	25,667	49,981

11. Reconciliation of operating profit to cash generated by operations

	2009 £000	2008 £000
Operating profit/(loss) from continuing operations	(24,314)	365,207
Decrease/(increase) in receivables	–	(372,758)
Increase/(decrease) in payables	–	111,522
Provision for Investments	24,314	–
Net cash outflow from ordinary operating activities	–	103,971

12. Reconciliation of net cash flow

	2009 £000	2008 £000
Increase/(decrease) in cash in the year	–	(29)
Change in net debt resulting from cash flows	–	(29)
Net debt at start of the year	–	29
Net debt at end of the year	–	–

Notes to the financial statements

at 30 November 2009

13. Events after balance sheet date

No information has been identified since the balance sheet date, about conditions existing at the balance sheet date, which are required to be disclosed in these financial statements

14. Related party transactions

During the year, Preferred Group Limited has the following amounts outstanding at the end of the year

	Interest received 2009 £'000	*Interest paid 2009 £'000*	*Amounts due from related parties 2009 £'000*	*Amounts owed to to related parties 2009 £'000*
Preferred Mortgage Ltd	–	–	9,790	–
Lehman Brother Ltd PCO	–	–	–	(4)
Preferred Holding Ltd	–	–	–	(368)
Capstone Mortgage Services Ltd	–	–	–	(8)
Total related party transactions	–	–	9,790	(380)

	Interest received 2008 £'000	*Interest paid 2008 £'000*	*Amounts due from related parties 2008 £'000*	*Amounts owed to to related parties 2008 £'000*
Preferred Mortgage Ltd	(373)	–	9,790	–
Lehman Brother Ltd PCO	–	–	–	(4)
Preferred Holding Ltd	–	–	–	(368)
Capstone Mortgage Services Ltd	–	–	–	(8)
Total related party transactions	(373)	–	9,790	(380)

Notes to the financial statements

at 30 November 2009

15. Ultimate parent company

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

The ultimate parent company 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 company 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 Resetfan Limited registered in England and Wales The consolidated financial statements of these groups are available from 23rd Floor, 25 Canada Square, London E14 5LQ respectively