PRS 5 & 6 Sub Loan Holdings Limited

Report and Financial Statements

28 February 2007
Registered No 05046409

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COMPANIES HOUSE

Registered No 5046409

Directors
M McDermott
M H Filer
Wilmington Trust SP Services (London) Limited
J Schroeder

Secretary
Wilmington Trust SP Services (London) Limited
Fifth floor
6 Broad Street Place
London EC2M 7JH

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

Registered Office
c/o Wilmington Trust SP Services (London) Limited
Fifth floor
6 Broad Street Place
London EC2M 7JH

Directors' report

The directors present their report and the consolidated financial statements for the year ended 28 February 2007

Principal activities

The Company acts as a holding company and currently holds shares in PRS 5 & 6 Sub Loan Limited and PRS 5 & 6 Sub Loan Option Limited The principal activity of the Group is the investment in residual cash flows from residential mortgage companies

Business review

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

Dividend

The directors do not recommend the payment of a dividend for the year (2006 £nil)

Going concern

Preferred Mortgages Limited has agreed to provide support to the Group as would be required to enable the Group to meet its future obligations as they fall due for at least the next 12 months and the foreseeable future

Consequently, the directors believe that the Group is a going concern and accordingly have prepared the financial statements on this basis

Directors

The directors who held office during the year were as follows

R G Baker (resigned 28 February 2008)
J P J Fairrie (resigned 20 July 2007)
M H Filer
M McDermott
J Schroeder (appointed 28 February 2008)

Policy and practice on payment of creditors

The Group does not follow any stated code on payment practice It is the Group'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 the suppliers at the outset It is the policy of the Group to abide by the agreed terms of payment There are no creditor days of suppliers' invoices outstanding at the year-end (2006 nil days)

Directors' report

Principal risks and uncertainties

Financial instrument risk

The financial instruments held by the Group comprise mortgages, borrowings, cash and various other items (such as trade debtors, trade creditors etc) that arise directly from its operations

The Group also enters into derivative transactions where necessary (principally interest rate and currency swaps) to manage its exposure to interest rate and foreign currency risk

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

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

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 Group 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 Group considers the use of derivative financial instruments to mitigate any residual interest rate risk

Liquidity risk

The Group's policy is to manage liquidity risk by matching the timing of the cash receipts from its assets with those of the cash payments due on the loan notes

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/she is obliged to take as a director in order to make himself/herself 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

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

Director

Date 23/10/08

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice

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) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group 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 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 Group 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 Group and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

ERNST & YOUNG

Independent auditors' report

to the members of PRS 5 & 6 Sub Loan Holdings Limited

We have audited the group's financial statements for the year ended 28 February 2007 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement and the related notes 1 to 15 These financial statements have been prepared on the basis of the accounting policies set out in Note 1

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 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 auditors' 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 described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with the United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company and of the Group as at 28 February 2007 and of the loss of the Group for the year then ended
- the financial statements have been properly prepared in accordance with Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
Date 23 October 2008

Consolidated profit and loss account

for the year ended 28 February 2007

	Notes	2007 £	2006 £
Interest receivable and similar income	2	–	–
Interest payable and similar charges	3	–	(47,497)
Net interest expenses		–	(47,497)
Operating expenses		(22,474)	(9,119)
Loss on ordinary activities before taxation	4	(22,474)	(56,616)
Tax on loss on ordinary activities	5	–	8,151
Loss on ordinary activities after taxation	10	(22,474)	(48,465)

The loss for the year was derived from continuing operations

There were no recognised gains or losses other than the loss for the year, accordingly no statement of recognised gains and losses is given

The notes on pages 11 to 16 form part of these financial statements

Consolidated balance sheet

at 28 February 2007

	Notes	2007 £	2006 £
Current assets			
Debtors			
Amounts falling due within one year	7	2	2
Cash at bank and in hand		90,489	103,024
		90,491	103,026
Creditors: amounts falling due within one year	8	(126,682)	(116,743)
Net current liabilities		(36,191)	(13,717)
Net liabilities		(36,191)	(13,717)
Capital and reserves			
Called up share capital	9	1	1
Profit and loss account	10	(36,192)	(13,718)
Shareholders' funds	11	(36,191)	(13,717)

The notes on pages 11 to 16 form part of these financial statements

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

Director

Date 23/10/08

Company balance sheet

at 28 February 2007

	Notes	2007 £	2006 £
Fixed assets			
Investments	6	2	2
Creditors: amounts falling due within one year		(1)	(1)
		1	1
Capital and reserves			
Called up share capital	9	1	1
Total equity shareholders' funds	11	1	1

The notes on pages 11 to 16 form part of these financial statements

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

Director

Date 23/10/08

Consolidated cash flow statement

for the year ended 28 February 2007

	Notes	2007 £	2006 £
Cash (outflow)/inflow from operating activities	12	(12,535)	22,031
Returns on investment and servicing of finance		–	(19,985)
Taxation paid		–	–
Capital expenditure and financial investment		–	–
Cash (outflow)/inflow before use of liquid cash resources and financing		(12,535)	2,046
Financing			
Share capital		–	–
		–	–
(Decrease)/increase in cash in the year		(12,535)	2,046

Reconciliation of movement in net cashflow to movement in net funds

	Notes	2007 £	2006 £
(Decrease)/increase in cash in the year		(12,535)	2,046
Cash flow from increase in net debt and loan financing	13	–	–
Capitalised issue costs		–	–
Change in net debt resulting from cashflows		(12,535)	2,046
Opening net funds	13	103,024	100,978
Closing net funds		90,489	103,024

Notes to the financial statements

at 28 February 2007

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historic cost convention The financial statements have been prepared taking into account the fact that loan notes issued by the company to Preferred Residuals Limited (secured against the residual cash flows of Preferred Residential 5 Plc and Preferred Residential 6 Plc) have been redeemed and as such the company is no longer engaging in its principal activities

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries for the year ended 28 February 2007 All the subsidiaries are accounted for using acquisition accounting

In accordance with section 230 (4) of the Companies Act 1985, PRS 5 & 6 Sub Loan Holdings Limited is exempt from the requirement to present its own profit and loss account The amount of profit for the year dealt with in the financial statements of PRS 5 & 6 Sub Loan Holdings Limited is disclosed in note 10 to the financial statements

Going concern

Preferred Mortgages Limited has agreed to provide support to the Group as would be required to enable the Group to meet its future obligations as they fall due for at least the next 12 months and the foreseeable future

Consequently, the directors believe that the Group is a going concern and accordingly have prepared the financial statements on this basis

Fixed asset investment

The Company's investment in subsidiary companies is stated at cost, less provision for diminution in value where the directors consider this necessary

Taxation

The charge for taxation is based on the profit/(loss) 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 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 future 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 years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Interest

Receipts and payments of interest are accounted for on an accruals basis

Notes to the financial statements

at 28 February 2007

1. Accounting policies (continued)

Related party transactions

Preferred Mortgages Limited retains an interest in the cashflows and profits of PRS 5 & 6 Sub Loan Limited, a wholly owned subsidiary of PRS 5 & 6 Sub Loan Holdings Limited Accordingly Preferred Mortgages Limited, whilst having no direct investment in the Group, is treated as a related party

Turnover

The Group's trade and turnover are wholly within the UK and within a single market sector Consequently, no segmental analysis has been prepared

2. Interest receivable and similar income

	2007	*2006*
	£	*£*
Note interest income	–	–

3. Interest payable and similar charges

	2007	*2006*
	£	*£*
Note interest	–	47,497

4. Loss on ordinary activities before taxation

This is stated after charging

	2007	*2006*
	£	*£*
Auditors' remuneration - audit services (charge for group)	5,000	3,751

5. Tax on loss on ordinary activities

(a) Analysis of tax charge in the year

	2007	*2006*
	£	*£*
Current tax		
UK corporation tax on loss for the year	–	(8,151)
Total current tax (note 5(b))	–	(8,151)

Notes to the financial statements

at 28 February 2007

5. Tax on loss on ordinary activities (continued)

(b) Factors affecting the tax charge in the year

The tax assessed for the loss on ordinary activities for the year differs from UK corporation tax rate applicable to small companies of 19% (2006 30%) The differences are explained below

	2007	*2006*
	£	*£*
Loss on ordinary activities before tax	(22,474)	(56,616)
Loss on ordinary activities multiplied by the standard rate of corporation tax of 19% (2006 30%)	(4,270)	(16,985)
Effects of		
Small Companies Rate of corporation tax at 19%	–	6,228
Tax losses not recognised	4,270	2,414
Expenses not deductible for tax purposes	–	192
Total current tax (note 5(a))	–	(8,151)

The company has an unrecognised deferred tax asset of £6,684 (2006 £2,414), in respect of tax losses to be carried forward This has not been recognised due to the uncertainty of future available taxable profits against which to utilise the asset

6. Investments

Company

	Investment in subsidiaries
	£
At 28 February 2006	2
Additions	–
At 28 February 2007	2

At 28 February 2007 the company held 1 ordinary share of £1 in PRS 5 & 6 Sub Loan Limited This holding represents the entire issued share capital of the company

Notes to the financial statements

at 28 February 2007

6. Investments (continued)

PRS 5 & 6 Sub Loan Limited acts as an investment company, with an interest in residual cash flows of companies holding mortgages financed by Mortgage Backed Floating Rate Notes The subsidiary is registered and operates in the United Kingdom The following information is presented in respect of its financial statements for the year ended 28 February 2007

	2007	*2006*
	£	*£*
Profit and loss account	(27,192)	(13,718)
Share capital	1	1
Aggregate capital and reserves	(27,191)	(13,717)

At 28 February 2007, the company also held one ordinary share of £1 in PRS 5 & 6 Sub Loan Option Limited

This holding represents the entire issued share capital of that company PRS 5 & 6 Sub Loan Option Limited has not traded since its incorporation on 17 February 2004

7. Debtors: amounts falling due within one year

Group

	2007	*2006*
	£	*£*
Other debtors	2	2

8. Creditors: amounts falling due within one year

Group

	2007	*2006*
	£	*£*
Accruals and deferred income	19,553	9,614
Other creditors	1	1
Withholding tax	107,128	107,128
	126,682	116,743

Notes to the financial statements

at 28 February 2007

9. Called up share capital

	2007 £	2006 £
Authorised		
100 ordinary shares of £1 each	100	100
Called up and issued		
1 ordinary share of £1	1	1

10. Profit and loss account

	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Retained (loss)/profit brought forward	(13,718)	34,747	–	–
Retained loss for the year	(22,474)	(48,465)	–	–
Retained loss carried forward	(36,192)	(13,718)	–	–

11. Reconciliation of movement in shareholder's funds

	Group 2007 £	Group 2006 £	Company 2007 £	Company 2006 £
Opening shareholder's funds	(13,717)	34,748	1	1
Retained loss for the year	(22,474)	(48,465)	–	–
Closing shareholder's funds	(36,191)	(13,717)	1	1

12. Reconciliation of operating profit to net cash inflow from operating activities

	2007 £	2006 £
Operating loss	(22,474)	(56,616)
Interest payable	–	19,985
Change in other debtors	–	1,147,359
Change in other creditors	9,939	(1,088,697)
Net cash (outflow)/inflow from operating activities	(12,535)	22,031

Notes to the financial statements

at 28 February 2007

13. Analysis of net funds

	28 February 2006 £	*Cash flow* £	*Other Non-cash Movements* £	*28 February 2007* £
Cash in hand and at bank	103,024	(12,535)	–	90,489
Mortgage backed securities	–	–	–	–
Subordinated loan	–	–	–	–
Cash flow from increase in net debt and loan financing	–	–	–	–
Amortisation of capitalised issue costs	–	–	–	–
Total	103,024	(12,535)	–	90,489

14. Related party transactions

During the year, PRS 5 & 6 Sub Loan Ltd has been charged the following amounts of interest by Preferred Mortgages Limited and the amount outstanding at the end of the year was

	Amount charged 2007 £	*Amounts outstanding 2007* £	*Amount charged 2006* £	*Amounts outstanding 2006* £
Loan interest	–	–	19,984	–

15. Parent company and ultimate controlling party

Wilmington Trust SP Services (London) Limited, a company registered in England and Wales, holds all of the issued shares in the Company on a discretionary trust basis Its financial statements are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ Under the terms of the discretionary trust, there is no ultimate controlling party

PRS 5 & 6 Sub Loan Holdings Limited is a quasi-subsidiary of Preferred Mortgages Limited a company registered in England and Wales Its financial statements are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ

The smallest group in which the results of the Company are consolidated is that headed by PRS 5 & 6 Sub Loan Holdings Limited registered in England and Wales At the largest group level, the company's results get consolidated on a linked presentation basis in Preferred Mortgages Limited Its financial statements are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ