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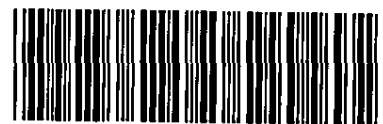
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LB Alpha Finance Cayman Limited

Report and Financial Statements

30 November 2006

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COMPANIES HOUSE

LB Alpha Finance Cayman Limited

Registered No FC023927

Directors

A Rush
I M Jameson
P Burke

Auditors

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

Registered Office

Ugland House
PO Box 309
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Directors' report

The directors present their report and financial statements for the year ended 30 November 2006

Basis of preparation

The company was incorporated and registered in the Cayman Islands on 20 March 2002, and established its place of business in the United Kingdom from 22 March 2002. The financial statements have been prepared under generally accepted accounting standards applicable in the United Kingdom.

Results and dividends

The loss after tax for the year was \$74,521,635 (2005 profit of \$20,001,544)

The directors do not recommend the distribution of a final ordinary dividend (2005 \$nil)

Preference dividends of NZ\$ nil (2005 NZ\$27,301,534) were paid during the year. Accumulated and unpaid preference dividends of NZ\$ nil (2005 NZ\$2,791,411) have been recorded in the Profit and Loss Account, in line with distributable reserves. The directors propose no preference share dividends for the year 2006. The unaccrued preference dividend for the year is included in Note 10.

Principal activities

The principal activity of the company is group financing.

Post balance sheet events

From 1 January 2007, the structure of the group has been changed so that the smallest group entity in which the results of the company will be consolidated is headed by Lehman Brothers Holdings Scottish Limited Partnership which is registered in Scotland.

On 25 January 2007 the credit link note investment was replaced by a loan to LB investments (UK) Ltd.

Going Concern

The company accounts have been prepared on a going concern basis. Finance will be made available, by the parent company, to enable the company to continue operating and to meet its liabilities as they fall due. The parent company has agreed to provide sufficient funds to the company for these purposes. The directors believe therefore that it is appropriate to prepare these financial statements on a going concern basis.

Directors

The directors of the company during the year ended 30 November 2006 and at the date of this report, unless otherwise indicated, were

I M Jameson

P M Sugarman (resigned 28 February 2008)

A J Rush

P Burke (appointed 22 February 2008)

Directors' report

Director's statement as to disclosure of information to auditors

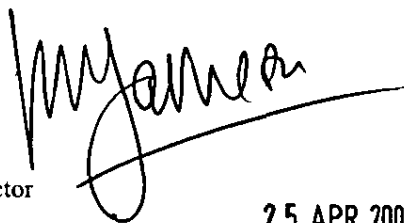
The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

Auditors

A resolution to reappoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting

On behalf of the board


Director

25 APR 2008

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare accounts for each financial year which 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 those accounts, 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 accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with Companies law (revised of the Cayman Islands). 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 LB Alpha Finance Cayman Limited

We have audited the company's financial statements for the year ended 30 November 2006 which comprise Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body. 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable Cayman Islands law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

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 law (revised) of the Cayman Islands. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Independent auditors' report

to the members of LB Alpha Finance Cayman Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 November 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies law (revised) of the Cayman Islands, and
- the information given in the directors' report is consistent with the financial statements

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

Ernst & Young LLP
Registered auditor
London

25 APR 2008

Profit and loss account

for the year ended 30 November 2006

	Notes	2006 \$	2005 \$
Interest receivable and similar income	3	27,525,612	48,107,026
Interest payable and similar charges	4	(11,001,661)	(19,450,533)
Other operating income / (expense)	5	(84,107,442)	5,266
Administrative expenses		(88,125)	(88,125)
(Loss) / Profit on ordinary activities before taxation	2	(67,671,616)	28,573,634
Tax on (loss)/profit on ordinary activities	6	(6,850,019)	(8,572,090)
(Loss) / Profit on ordinary activities after taxation for the financial year		(74,521,635)	20,001,544
Dividends	7	-	(20,222,877)
Retained loss for the financial year	13	(74,521,635)	(221,333)

Statement of total recognised gains and losses

There are no recognised gains or losses other than the loss attributable to shareholders of the company of \$74,521,635 for the year ended 30 November 2006 and a profit of \$20,001,544 for the year ended 30 November 2005

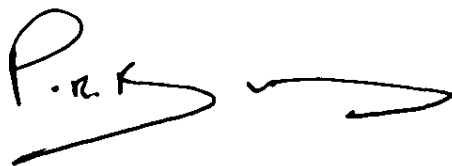
Balance sheet

at 30 November 2006

	Notes	2006 \$	2005 \$
Fixed assets			
Investments	8	154,080,615	154,026,933
Current assets			
Cash		10,000	10,000
Debtors	9	40,191,799	45,598,186
		<u>40,201,799</u>	<u>45,608,186</u>
Creditors amounts falling due within one year	10	(31,126,612)	(46,203,824)
Net current assets/ (liabilities)		<u>9,075,187</u>	<u>(595,638)</u>
Creditors , amounts falling due greater than one year	11	(237,667,437)	-
Net (Liabilities)/Assets		<u>(74,511,635)</u>	<u>153,431,295</u>
Capital and reserves			
Called up share capital	12	10,000	10,000
Preference share capital	13	-	153,421,295
Profit and loss account	13	(74,521,635)	-
Total shareholders' funds		<u>(74,511,635)</u>	<u>153,431,295</u>

Approved by the Board of Directors on

Director



25 APR 2008

Notes to the financial statements

at 30 November 2006

1. Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

Going Concern

The company accounts have been prepared on a going concern basis. Finance will be made available, by the parent company, to enable the company to continue operating and to meet its liabilities as they fall due. The parent company has agreed to provide sufficient funds to the company for these purposes. The directors believe therefore that it is appropriate to prepare these financial statements on a going concern basis.

Changes to Accounting Policy

During the year the company adopted Financial Reporting Standard (FRS) 25, 'Financial Instruments Presentation'. Comparatives have not been restated as permitted by FRS 25.

Functional currency

The company's functional currency is US dollars as the directors consider this to be the most appropriate currency for the company's business.

Foreign currency translation

Foreign currency assets and liabilities are translated into US dollars at rates of exchange ruling at the balance sheet date. Transactions during the year expressed in foreign currencies are translated into US dollars at the rate prevailing at the end of the month in which the transaction occurs. Any differences arising from translation are included in the profit and loss account. Liabilities hedged by foreign currency contracts are translated at the hedge rates and payments under foreign currency contracts are accrual accounted for.

Investments

Fixed asset investments comprise unlisted credit linked notes. These are stated at cost plus accrued interest unless in the opinion of the directors there has been a permanent diminution in value, in which case an appropriate adjustment is made.

Statement of cash flows

The directors have taken advantage of the exemption in paragraph 5(a) of Financial Reporting Standard 1 (revised) from producing a cash flow statement.

2. Profit on ordinary activities before taxation

The disclosure of income by different geographical regions has been omitted as the directors consider that it would be seriously prejudicial to disclose this information. All the company's operating income arises from continuing activities in group financing.

The audit fee is borne by a fellow subsidiary.

The directors did not receive any emoluments for services to the company during the year. The company had no employees during the year.

Notes to the financial statements

at 30 November 2006

3. Interest receivable and similar income

	2006	2005
	\$	\$
Group undertakings	27,525,612	48,107,026

4. Interest payable and similar charges

	2006	2005
	\$	\$
Group undertakings	11,001,661	19,450,533

5. Other Operating Expenses

	2006	2005
	\$	\$
Foreign exchange losses	(84,107,442)	-

Foreign Exchange losses include \$84,246,142 arising on translation of Preference Shares at rates of exchange ruling at the balance sheet date (Note 11)

6. Tax on (loss)/profit on ordinary activities

Analysis of charge in the year

	2006	2005
	\$	\$
Tax for the year	6,850,019	8,572,090

Notes to the financial statements

at 30 November 2006

6. Tax on (loss)/profit on ordinary activities (continued)

Factors affecting tax charge the year

	2006	2005
	\$	\$
(Loss) / Profit on ordinary activities before tax	(67,671,616)	28,573,634
Multiplied by standard rate of corporation tax in the year of 30% (2005-30%)	(20,301,485)	8,572,090
Effect of		
Non allowable expenses	1,877,661	-
Preference Share foreign exchange losses not taxable	25,273,843	-
Payments/ (Receipts) for group relief	6,850,019	(8,572,090)
Group relief (claimed)/surrender	(6,850,019)	8,572,090
Current tax charge for the year	6,850,019	8,572,090

Tax payable is settled through the intercompany facility and included in the intercompany analysis in note 9

7. Dividends

	2006	2005
	\$	\$
Non-equity dividends on preference shares		
Paid	-	18,266,525
Unpaid	-	1,956,352
	-	20,222,877

Unpaid preference share dividends are accrued in line with current distributable reserves

8. Fixed asset investments

	2006	2005
	\$	\$
At 1 December 2005	154,026,933	153,899,571
Movement in accrued coupon	53,682	127,362
At 30 November 2006	154,080,615	154,026,933

The investments are unlisted credit linked notes, issued by Lehman Brothers Holdings Inc

Notes to the financial statements

at 30 November 2006

9. Debtors: amounts falling due within one year

	2006	2005
	\$	\$
Amounts due from group undertakings	40,201,799	45,598,186

10. Creditors: amounts falling due within one year

	2006	2005
	\$	\$
Amounts owed to group undertakings	29,028,294	44,071,222
Preference share dividends payable	1,833,943	1,956,352
Accruals and deferred income	264,375	176,250
	31,126,612	46,203,824

Preference Share Dividend of NZ\$20,423,147 (2005 - NZ\$22,626,366) were not accrued during the year in line with available current distribution reserves

11. Creditors: amounts falling due greater than one year

	2006	2005
	\$	\$
Preference Shares	153,421,295	-
Foreign exchange losses	84,246,142	-
	237,667,437	-

The preference shares have been classified as 'debt' as per FRS25 (Note 12)

The preference shares include 350,000,000 cumulative 9.01% redeemable preference shares of NZ\$1, issued at par and are redeemable, on 10 April 2012 or, at the option of the company, at any time before this date in certain prescribed circumstances. The preference shares carry no voting rights. Regardless of the redemption date, the holder is entitled to an amount equal to the nominal value of each share to be redeemed plus accrued but unpaid dividends. On a winding up, the preference shares will rank in priority to the ordinary shares, repaying no more than nominal value plus accrued but unpaid dividends.

Notes to the financial statements

at 30 November 2006

12. Share capital

	2006 \$	2005 \$
Authorised:		
<i>Ordinary Share Capital (equity)</i>		
7,500 Class 'A' ordinary shares of US\$1 each	US\$7,500	US\$7,500
2,500 Class 'B' ordinary shares of US\$1 each	US\$2,500	US\$2,500
350,000,000 Non-voting shares of NZ\$1 each	NZ\$350,000,000	NZ\$350,000,000
<i>Preference Share Capital (non equity)</i>		
350,000,000 9.01% Cumulative redeemable preference shares of NZ\$1 each	NZ\$350,000,000	NZ\$350,000,000
Allotted, called up and fully paid:		
<i>Ordinary Share Capital (equity)</i>		
7,500 Class 'A' ordinary shares of US\$1 each	US\$7,500	US\$7,500
2,500 Class 'B' ordinary shares of US\$1 each	US\$2,500	US\$2,500
	<u>US\$10,000</u>	<u>US\$10,000</u>
<i>Preference Share Capital (non equity)</i>		
350,000,000 9.01% Cumulative redeemable preference shares of NZ\$1 each	<u>US\$153,421,295</u>	<u>US\$153,421,295</u>

The preference shares have been classified as 'Debt' as per FRS25 under Note 11

The 'A' ordinary shares in aggregate carry 25% of the voting rights. The 'B' ordinary shares in aggregate carry 75 % of the voting rights.

The 'A' and 'B' ordinary shares have equal rights in respect of dividends.

13. Reconciliation of movements in shareholders' funds

	2006 \$	2005 \$
Opening shareholders' funds	153,431,295	153,652,628
Loss attributable to ordinary shareholders of the company	(74,521,635)	(221,333)
Preference share classified as 'Debt' as per FRS25 (Note 11)	(153,421,295)	-
Closing shareholders' funds	<u>(74,511,635)</u>	<u>153,431,295</u>

Notes to the financial statements

at 30 November 2006

14. Ultimate parent company

The ultimate parent company of LB Alpha Finance Cayman Limited is Lehman Brothers Holdings Inc which is incorporated in the State of Delaware in the United States of America

The company has taken advantage of the exemption in paragraph 3(c) of Financial Reporting Standard 8 from disclosing transactions with related parties that are part of Lehman Brothers Holdings Inc

The largest group in which the results of the company are consolidated is that headed by Lehman Brothers Holdings Inc incorporated in the United States of America. The smallest group in which they are consolidated is that headed by Lehman Brothers Holdings Scottish Limited Partnership registered in Scotland. The consolidated accounts of these groups are available to the public from 745 Seventh Avenue, New York, USA and from 25 Bank Street, London, England respectively.

15. Post balance sheet events

From 1 January 2007, the structure of the group has been changed so that the smallest group entity in which the results of the company will be consolidated is headed by Lehman Brothers Holdings Scottish Limited Partnership which is registered in Scotland.

On 25 January 2007, the credit link note investment of US\$153,421,295 was redeemed.