

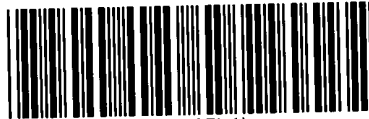
Registered No: 04192432

Preferred Group Limited

Report and audited Financial statements

30 November 2016

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Contents

	Page
Company information	2
Strategic report	3
Directors' report	5
Statement of directors' responsibilities	7
Independent auditor's report	8
Income statement	10
Statement of changes in equity	11
Statement of financial position	12
Notes to the financial statements	13

Company information

Directors

A Brereton
R Harper

Registered Office

Hays Galleria
1 Hays Lane
London
SE1 2RD

Independent Auditors

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Strategic Report

The Directors present their strategic report for the Preferred Group Limited (“the Company”) for the year ended 30 November 2016.

Introduction

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 residential mortgages secured on properties in the United Kingdom.

During the year, the company transitioned to Financial Reporting Standard 102 (“FRS 102”) from previously extant UK GAAP. Further details of the impact of the transition to FRS 102 are disclosed in note 13.

Business review

The profit for the year after taxation amounted to £19,730 (2015: Loss £14,998) are shown in the income statement on page 10.

On 2 April 2008, the Company’s subsidiary, Preferred Mortgages Limited announced a suspension of its mortgage lending activities.

On 29 August 2008, the Company resolved to increase 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 share in Preferred Mortgages Limited.

It is the Directors intention that the Company will be placed into a members voluntary liquidation in the next 12 months. The Directors therefore do not consider the Company to be a going concern and hence, the financial statements have been prepared on a liquidation basis.

The Company received no dividend from Preferred Mortgages Limited (2015: £nil).

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.

(a) 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.

(b) 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.

Resetfan 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 for at least the next 12 months and the foreseeable future.

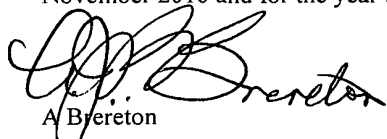
Strategic Report (continued)

EU referendum

In a referendum held on 23 June 2016, a majority voted for the UK to leave the European Union (EU). After receiving parliamentary approval, the UK Government triggered the commencement of the process to leave the EU on 29 March 2017. Article 50 of the Lisbon Treaty stipulates that a maximum two year period of negotiation will begin to determine the terms of the UK's exit from the EU and set the framework for the UK's new relationship with the EU. Unless some form of transitional arrangement encompassing those associated treaties is agreed or there is unanimous agreement among EU member states and the European Commission to extend the negotiation period, the UK's membership of the EU and all associated treaties will cease to apply from 29 March 2019.

The impact of these events is currently unknown as the UK Government is yet to agree the terms and conditions upon which the UK will leave the EU. Until such time as formal terms are agreed, there is a high degree of uncertainty and, consequently, market volatility is possible. The impact of the uncertainty on the company is not quantifiable at this point in time, as the longer term macro-economic variables are difficult to predict in this unprecedented environment.

To date, there have been no matters that warrant adjustment to the company's financial results as at 30 November 2016 and for the year then ended.



A Byereton

Director

Date 9/11/2017

Directors' report

The Directors present their report and the audited financial statements for the year ended 30 November 2016.

Results

The profit for the year after taxation amounted to £19,730 (2015: loss £14,998) are shown in the income statement on page 10.

Dividend

The Directors do not recommend the payment of a dividend for the year (2015: £nil).

Directors

The Directors who served the Company during the year were as follows:

A Brereton
R Harper

Future Developments

Following the bankruptcy of the Company's ultimate parent Lehman Brothers Holdings Inc, it is the Directors intention to place the Company into a members voluntary liquidation in the next 12 months.

Financial instruments

An assessment of the company's financial instruments is described in the strategic report under the principal risks and uncertainties section.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review section of the Strategic Report and the Future Developments section of this report. In addition, the Company's financial risk management policies and objectives are set out in the Principal Risks and uncertainties section of the Strategic Report.

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

On 23 September 2008, an intermediate parent company Mable Commercial Funding Limited (in administration) was placed into administration.

On 23 September 2008, the principal funder of the Resetfan Limited Group which the Company forms part of, Storm Funding Limited (in administration), was placed into administration.

On 6 December 2011, the United States Bankruptcy Court for the Southern District of New York confirmed the modified Third Amended Joint Chapter 11 Plan for Lehman Brothers Holdings Inc. and its Affiliated Debtors (the "Plan") and on 6 March 2012, the "Effective Date" (as defined in the Plan) occurred. As a result of the effectiveness of the Plan, Lehman Brothers Holdings Inc. and its Affiliated Debtors have emerged from bankruptcy. Following this, distributions were made and Preferred Mortgages Limited, the Company's subsidiary, received cash payments from its receivable from Affiliated Debtors.

It is the intention of the Directors that the Company will be placed into a members voluntary liquidation. The Directors therefore believe it is appropriate to prepare the financial accounts on a liquidation basis. Under the liquidation basis assets are recorded at their estimated recoverable value, liabilities at their expected settlement value, consideration has been made for all future costs, longer term assets and liabilities are classified as current assets and liabilities are netted off where they are due from/to the same party.

Resetfan Limited, the Company's intermediate parent, has agreed to provide support for the ongoing running costs, including liquidation costs, of the Company as would be required to enable the Company to meet its future obligations as they fall due to facilitate the closure of the company.

Directors' report (continued)

Events occurring after balance sheet date

On 27th February 2017, a SH19 Share Capital Reduction was undertaken reducing the share capital to 1 Ordinary share £1 and capital contribution to nil to enable the return of capital to the shareholders as part of the orderly wind down of the Company.

30th March 2017 a dividend payment of £9,392,476.41 was declared and paid.

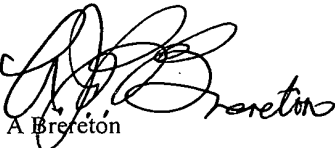
Disclosure of information to the auditors

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 director and 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.

Re-appointment of auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting in accordance with the provision of section 485 of the Companies Act 2006.

Approved by the board of Directors and signed on behalf of the board.


A Breton

Director

Date 9/11/2017

Statement of directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Director's 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 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 2016 which comprise the Income Statement, the Statement of changes in equity, the Statement of financial position and the related notes 1 to 13. 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), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. The financial Statements have been prepared on a liquidation basis as disclosed in note 2.

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 7, 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 Director; 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2016 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, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent auditors' report (continued)

to the members of Preferred Group Limited

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Director's Report.

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 Director's 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 Gilder (Senior Statutory Auditor)

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

London

Date 13 November 2017

Income Statement

for the year ended 30 November 2016

	<i>Notes</i>	<i>2016</i> £000	<i>2015</i> £000
Interest receivable and similar income	3	4	-
Operating expenses		<u>16</u>	<u>(15)</u>
<i>Profit/(loss) on ordinary activities before taxation</i>	4	20	(15)
Tax on loss on ordinary activities	5	<u>-</u>	<u>-</u>
<i>Profit/(loss) for the year</i>		<u>20</u>	<u>(15)</u>

The Company has no recognised gains or losses in the current or preceding financial year other than those shown above and accordingly no other comprehensive income has been prepared.

All amounts are derived from discontinued operations.

The notes on pages 13 to 18 form part of these financial statements.

Statement of changes in equity

at 30 November 2016

	<i>Called-up share capital</i>	<i>Share Capital Contribution</i>	<i>Profit and loss account</i>	<i>Total Equity</i>
	£000	£000	£000	£000
At 1 December 2014	25,000	24,287	800	50,087
(Loss) for the year	-	-	(15)	(15)
At 30 November 2015	25,000	24,287	785	50,072
Profit for the year	-	-	20	20
At 30 November 2016	25,000	24,287	805	50,092

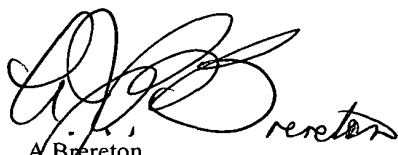
The notes on pages 13 to 18 form part of these financial statements.

Statement of financial position

at 30 November 2016

	<i>Notes</i>	<i>2016</i> £000	<i>2015</i> £000
Fixed assets			
Investments	7	-	40,704
Current assets			
Investments	7	40,704	-
Debtors: amounts falling due within one year	8	<u>9,401</u>	<u>9,397</u>
Total current assets		50,105	9,397
Creditors: amounts falling due within one year	9	<u>(13)</u>	<u>(29)</u>
Net assets		50,092	50,072
Capital and reserves			
Called up share capital	10	25,000	25,000
Capital contribution		24,287	24,287
Profit and loss account		<u>805</u>	<u>785</u>
Shareholder's funds		<u>50,092</u>	<u>50,072</u>

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


 A Bréretton
 Director

Date 9/11/2017

The notes on pages 13 to 18 form part of these financial statements.

Notes to the financial statements

at 30 November 2016

1. General Information

Statement of compliance

Preferred Group Limited is a limited by shares company and was incorporated and is domiciled in the UK. Its principal place of business is its registered office located at Hays Galleria, 1 Hays Lane, London, SE1 2RD.

The Company's financial statements have been prepared in compliance with FRS 102 as it applies to the financial statements of the Company for the year ended 30 November 2016.

The Company transitioned from previously extant UK GAAP to FRS 102 as at 1 December 2014. An explanation of how transition to FRS 102 has effected the reported financial position and financial performance is given in note 13.

2. Significant accounting policies

Basis of preparation

The financial statements of the company were authorised for issue by the directors on 9th November 2017.

The financial statements have been prepared in accordance with applicable accounting standards. The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £'000.

FRS 102 allows a qualifying entity certain exemptions subject to certain conditions which have been complied with including notification of, and, no objection to, the use of exemptions by the Company's shareholders as follows;

- A statement of cash flows and related notes.
- Disclosures in respect of the compensation of key management personnel.

The company has also adopted the following exemptions;

- Disclosures in respect of transactions with wholly owned subsidiaries of the parent company.
- Disclosures in respect of financial instruments.

Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosure below:

Fundamental accounting concept - Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review of the Strategic Report and the Future Developments section of the Directors' Report. In addition, the Company's financial risk management policies and objectives are set out in the Principal risks and uncertainties section of the Strategic Report.

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

On 23 September 2008, an intermediate parent company Mable Commercial Funding Limited (in administration) was placed into administration.

On 23 September 2008, the principal funder of the Resetfan Limited Group (Resetfan Limited an intermediate parent company), Storm Funding Limited (in administration), was placed into administration.

Notes to the financial statements

at 30 November 2016

2. Significant accounting policies (continued)

Fundamental accounting concept - Going Concern (continued)

On 6 December 2011, the United States Bankruptcy Court for the Southern District of New York confirmed the modified Third Amended Joint Chapter 11 Plan for Lehman Brothers Holdings Inc. and its Affiliated Debtors (the "Plan") and on 6 March 2012, the "Effective Date" (as defined in the Plan) occurred. As a result of the effectiveness of the Plan, Lehman Brothers Holdings Inc. and its Affiliated Debtors have emerged from bankruptcy. Following this, distributions were made and Preferred Mortgages Limited, the main subsidiary undertaking of the Company, received cash payments from its receivable from Affiliated Debtors.

It is the intention of the Directors that the Company will be placed into members voluntary liquidation. The Directors therefore believe it is appropriate to prepare the financial accounts on a liquidation basis. Under the liquidation basis assets are recorded at their estimated recoverable value, liabilities at their expected settlement value, consideration has been made for all future costs, longer term assets and liabilities are classified as current assets and liabilities are netted off where they are due from/to the same party.

Resetfan Limited, the Company's intermediate parent, has agreed to provide support for the ongoing running costs, including liquidation costs, of the Company as would be required to enable the Company to meet its future obligations as they fall due to facilitate the closure of the company.

Taxation

(a) Current tax

The tax expense represents the sum of tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit deposited in income statements because it excludes items of income and expense that are taxable or deductible in others years and its first excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date. Tax relating to items charged or credited directly to equity is also dealt with in equity.

(b) Deferred taxation

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements, except that deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the relates asset is realised or liability is settled based on current tax rates.

(c) Group relief

Group relief tax rates are recognised in respect of taxable losses, where sufficient taxable profits are available for offset within other group undertakings in the same tax group

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost, less any necessary provision for diminution in value. The carrying value of investments in subsidiaries is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

3. Interest receivable and similar income

	2016 £000	2015 £000
Other interest	4	-
	<u>4</u>	<u>-</u>

Notes to the financial statements

at 30 November 2016

4. Profit/(loss) on ordinary activities before taxation

	2016 £000	2015 £000
Auditor's remuneration – audit of the financial statements	15	15
Write off intercompany payable	(15)	-

The audit fees are paid by its intermediate parent undertaking, Resetfan Limited.

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

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

The tax charge is made up as follows:

	2016 £000	2015 £000
Current tax:		
UK Corporation tax on the profit/(loss) for the year	-	-
	<u> </u>	<u> </u>
Tax on profit/(loss) on ordinary activities (note 5(b))	<u> </u>	<u> </u>

(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 20% (2015: 20.33%). The differences are explained below:

	2016 £000	2015 £000
Profit/(loss) on ordinary activities before tax	<u> 20</u>	<u> (15)</u>
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax of 20% (2015: 20.33%)	3	(3)
<i>Effects of:</i>		
Utilisation of losses brought forward	(3)	-
Tax losses carried forward not recognised	<u> -</u>	<u> 3</u>
Tax on profit/(loss) on ordinary activities	<u> -</u>	<u> -</u>

Losses of £31,236 (2015; £50,968) resulting in a deferred tax asset of £6,038 (2015; £10,194) have not been recognised. The deferred tax asset has not been recognised due to the uncertainty surrounding the Company's future profitability

The Finance Act (No.2) 2015 and Finance Act 2016 contain provisions reducing the rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 17% from 1 April 2020, respectively. These Acts were enacted on 18 November 2015 and 15 September 2016 respectively.

Notes to the financial statements

at 30 November 2016

6. Information regarding directors and employees

The Company has no employees (2015: none). The Directors of the Company are also Directors of the holding company and fellow subsidiaries. The Directors received total remuneration for the year of £56k (2015: £24k) all of which was paid by the holding company. The Directors do not believe that it is practicable to apportion this amount between their services as Directors of the company and their services as Directors of the holding and fellow subsidiary companies.

7. Investments

	2016 £000	2015 £000
Cost:		
At the beginning of year	<u>40,704</u>	<u>40,704</u>
Cost at the end of the year	<u>40,704</u>	<u>40,704</u>
Impairment losses:		
At the beginning of year	-	-
Reversal of impairment losses	<u>-</u>	<u>-</u>
Impairment losses at the end of the year	<u>-</u>	<u>-</u>
Investment carrying value	<u><u>40,704</u></u>	<u><u>40,704</u></u>

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%

Address: Hays Galleria, 1 Hays Lane, London, SE1 2RD

Preferred Funding Five Limited*	England and Wales	Mortgage Lender	Ordinary £1	100%
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Address: Hays Galleria, 1 Hays Lane, London, SE1 2RD

*held indirectly

Notes to the financial statements

at 30 November 2016

8. Debtors: amounts falling due within one year

	2016 £000	2015 £000
Amounts owed by group undertakings	-	9,396
Other receivable	<u>9,401</u>	<u>1</u>
	<u>9,401</u>	<u>9,397</u>

Other receivable represents monies held in a client account on behalf of the Company.

9. Creditors: amounts falling due within one year

	2016 £000	2015 £000
Amounts owed to group undertakings	13	-
Accruals	-	29
	<u>13</u>	<u>29</u>

10. Issued share capital

	2016 £	2015 £
Authorised: 25,000,001 ordinary shares of £1 each	<u>25,000,001</u>	<u>25,000,001</u>
Allotted, called up and fully paid: 25,000,001 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 at which they were issued.

11. Ultimate parent undertaking

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

The ultimate parent undertaking of Preferred Group Limited is Lehman Brothers Holdings Inc. which is incorporated in the state of Delaware in the United States of America. On September 2008, Lehman Brothers Holdings 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 financial statements of the Resetfan Limited group will be available at Hays Galleria, 1 Hays Lane, London SE1 2RD.

12. Post balance sheet events

On 27th February 2017, a SH19 Share capital reduction was undertaken reducing the share capital to 1 Ordinary share £1 and capital contribution to nil to enable the return of capital to the shareholders as part of the orderly wind down of the Company.

30th March 2017 a dividend payment of £9,392,476.41 was declared and paid.

Notes to the financial statements

at 30 November 2016

13. Transition to FRS 102

The Company transitioned to FRS 102 from previously extant UK GAAP as at 1 December 2014. There was no impact on the Company's reported financial position or financial performance from the transition to FRS 102.