

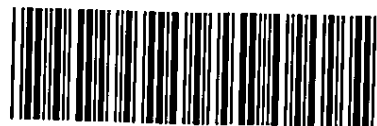
Preferred Holdings Limited

Report and Financial Statements

30 November 2006

Registered No 4191096

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COMPANIES HOUSE

Preferred Holdings Limited

Registered No 4191096

Directors

R Taylor
P Chambers
A Mehr
L Weir
S Staid
A Attia

Secretary

Clifford Chance Secretaries (CCA) Limited
10 Upper Bank Street
London
E14 5JJ

Auditors

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

Bankers

Barclays Bank PLC
54 Lombard Street
London
EC3V 9EX

Registered Office

First Floor
No 6 Broadgate
London
EC2M 2QS

Directors' report

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

Principal activities

The principal activity of the Company is that of a holding company and the Company currently holds the entire share capital of Preferred Group Limited. The principal activity of the Group is the provision of loans secured on properties in the United Kingdom.

Business review

On 31 January 2006, the entire share capital of the Company was acquired by Resefan Limited from Lehman Brothers Holdings Plc.

The Company has not traded during the year.

On 27 November, the Company received dividends of £25,000,000 from Preferred Group Limited.

Events after balance sheet date

On 2 April 2008, the mortgage lending business of the Company's subsidiary, Preferred Mortgage Limited, announced a suspension in their mortgage origination activities.

It is not possible to quantify the financial impact on the Company at this stage.

Results

The results for the year are shown in the Profit and Loss account on page 8.

Directors

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

J Webster (resigned 15 December 2005)
A Attia (resigned 18 May 2006 and reappointed 17 March 2008)
W Bilsborough (resigned 27 March 2008)
D Gibb (appointed 17 May 2006 and resigned 25 July 2007)
W Hinshelwood (appointed 17 May 2006 and resigned 17 March 2008)
N Ingram (resigned 27 April 2007)
C Rupp (appointed 9 February 2006 and resigned 17 March 2008)
R Taylor
P Chambers (appointed 25 July 2007)
A Mehr (appointed 17 March 2008)
L Weir (appointed 17 March 2008)
S Staid (appointed 17 March 2008)

Dividend

The directors have declared a dividend of £25,000,000 for the year (2005 - nil).

Going concern

The directors believe that the Company is a going concern and accordingly have prepared the financial statements on this basis.

Directors' report

Policy and practice on payment of creditors

The Company 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 supplier at the outset. It is the policy of the Group to abide by the agreed terms of payment. There are no creditors days of suppliers' invoices outstanding at the year end (30 November 2005 - 15 days)

Principal risks and uncertainties

Financial instrument risks

The financial instruments held by the Company comprise borrowings, cash and various other items (such as trade debtors, trade creditors, etc) 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. All loan facilities provided to group companies during the year by the Company were secured on the relevant Company's assets. The ongoing credit risk of these loans is closely 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/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.

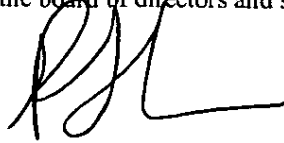
Directors' report

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

Director



Date

18/04/08

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing 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 period. 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 profit or loss of the Company for that period. In preparing those 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 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 the Companies Act 1985. 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 Holdings Limited

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

Tel 020 7951 2000
Fax 020 7951 1345
www.ey.com/uk

We have audited the Company's financial statements for the year ended 30 November 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 12. 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, 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 Act 1985. 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 Preferred Holdings 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 profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements



Ernst & Young LLP
Registered Auditor
London

21 April 2008

Profit and loss account

for the year ended 30 November 2006

	<i>Notes</i>	<i>2006</i> £000	<i>2005</i> £000
Other operating income – dividends receivable		25,000	–
Operating expenses		–	–
<i>Profit on ordinary activities before interest</i>		<u>25,000</u>	<u>–</u>
Tax on profit on ordinary activities		–	–
<i>Profit on ordinary activities before taxation</i>	2	<u>25,000</u>	<u>–</u>
Taxation	4	–	–
<i>Profit on ordinary activities after taxation</i>	9	<u><u>25,000</u></u>	<u><u>–</u></u>

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 10 to 14 form part of these financial statements

Balance sheet

at 30 November 2006

	<i>Notes</i>	<i>2006</i> £000	<i>2005</i> £000
Fixed assets			
Investments	5	—	—
		—	—
Current assets			
Debtors	6	25,368	368
Cash		1	1
Total current assets		<u>25,369</u>	<u>369</u>
Creditors , amounts falling due within one year	7	(25,310)	(310)
Net current assets		<u>59</u>	<u>59</u>
Total assets less current liabilities		<u>59</u>	<u>59</u>
Creditors , amounts falling due after more than one year		—	—
Net assets		<u>59</u>	<u>59</u>
Capital and reserves			
Called up share capital	8	5	5
Share premium	9	490	490
Profit and loss account	9	(436)	(436)
Equity shareholders' funds	10	<u>59</u>	<u>59</u>

The notes on pages 10 to 14 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



12/04/08

Notes to the financial statements

at 30 November 2006

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 upon the historical cost convention. The financial statements have been prepared on a going concern basis.

Group accounts

The Company has taken advantage of the exemption available under Section 228 of the Companies Act 1985 from preparing group accounts.

Cash flow statement

Under Financial Reporting Standard No 1 (Revised) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the parent undertaking includes the Company in its own consolidated financial statements, which are publicly available.

Fixed asset investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost, less any necessary provision for diminution in value.

Taxation

The charge for taxation is based on the profit 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 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.

2. 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. Information regarding directors and employees

The Company has no employees (2005: none). The directors received no remuneration from the Company during the year (2005: £nil).

Notes to the financial statements

at 30 November 2006

4. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year

	2006 £000	2005 £000
Current tax		
UK corporation tax on profits in the year	-	-
Total current tax (note 4(b))	<u>-</u>	<u>-</u>

(b) Factors affecting the tax charge in the year

The tax assessed for the year is lower than the Standard rate for Current Corporation tax in the UK of 30% (2005 30%) The factors affecting the tax charge are explained below

	2006 £000	2005 £000
Profit on ordinary activities before tax	25,000	-
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30 % (2005 30%)	7,500	-
Effects of UK dividends received non-taxable	(7,500)	-
Current tax charge for the year	<u>-</u>	<u>-</u>

Notes to the financial statements

at 30 November 2006

5. Fixed asset investments

	<i>Shares in Subsidiary undertakings</i>	
	<i>2006</i>	<i>2005</i>
	<i>£</i>	<i>£</i>
Cost		
At beginning of year	1	1
Acquired during the year	–	–
	<hr/>	<hr/>
Cost at the end of the year	1	1
	<hr/> <hr/>	<hr/> <hr/>

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	Provision of loans secured on properties	Ordinary £1	100%
Preferred Funding Three Limited*	England and Wales	Investment company	Ordinary £1	100%
Preferred Funding Five Limited*	England and Wales	Investment company	Ordinary £1	100%
Preferred Mortgages Residuals One Limited*	England and Wales	Investment company	Ordinary £1	100%
Preferred Mortgages Residuals 2 Limited*	England and Wales	Investment company	Ordinary £1	100%
Mortgage Funding II Limited*	England and Wales	Dormant	Ordinary £1	100%
Yellow Brick Road Direct Mortgages Limited*	England and Wales	Dormant	Ordinary £1	100%
Preferred Home Loans Limited*	England and Wales	Dormant	Ordinary £1	100%

*held indirectly

6. Debtors: amounts falling due within one year

	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Amounts owed by related companies	25,368	368
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements

at 30 November 2006

7. Creditors: amounts falling due within one year

	2006 £000	2005 £000
Amounts owed to related companies	25,315	315
Accruals and deferred income	(5)	(5)
	<u>25,310</u>	<u>310</u>

8. Called up share capital

	2006 £	2005 £
Authorised		
50,000 Deferred shares of 1p each	500	500
50,000 Ordinary shares of 10p each	5,000	5,000
124,963 A ordinary shares of 1p each	–	–
32,215 B ordinary shares of 1p each	–	–
10,001 C ordinary shares of 1p each	–	–
1,291 D ordinary shares of 10p each	–	–
450,000 X Ordinary shares of 1p each	4,500	4,500
	<u>10,000</u>	<u>10,000</u>

	2006 £	2005 £
Issued		
16,868 Deferred shares of 1p each	169	169
30,638 Ordinary shares of 10p each	3,193	3,193
124,963 A ordinary shares of 1p each	–	–
27,214 B ordinary shares of 1p each	–	–
7,001 C ordinary shares of 1p each	–	–
1,291 D ordinary shares of 10p each	–	–
159,178 X Ordinary shares of 1p each	1,592	1,592
	<u>4,954</u>	<u>4,954</u>

9. Statement of movement on reserves

	Share premium account £000	Profit and loss account £000	Total £000
Balance at 1 December 2005	490	(436)	54
Retained profit for the year	–	25,000	25,000
Dividends declared during the year	–	(25,000)	(25,000)
Balance at 30 November 2006	<u>490</u>	<u>(436)</u>	<u>54</u>

Notes to the financial statements

at 30 November 2006

10. Reconciliation of movements in shareholders' funds

	2006 £000	2005 £000
Profit for the financial year	25,000	–
Dividends declared during the year	(25,000)	–
Net increase/(decrease) to shareholders' funds	–	–
Opening shareholders' funds	59	59
Closing shareholders' funds	59	59

11. Post balance sheet events

On 2 April 2008, the mortgage lending business of the Company's subsidiary, Preferred Mortgage Limited, announced a suspension in their mortgage origination activities

It is not possible to quantify the financial impact on the Company at this stage

12. Parent company and ultimate controlling party

The company is controlled by its parent undertaking Resefan Limited which is registered and operated in the United Kingdom

The ultimate parent company of Preferred Holdings Limited is Lehman Brothers Holding 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. As at 30 November 2006 the smallest group in which they are consolidated is that headed by Lehman Brothers Spain Holdings Limited, registered in England and Wales. Subsequent to this, on 25 October 2007 the smallest group in which they are now consolidated is Lehman Brothers Bancorp UK Holdings Limited, registered in England and Wales. The consolidated financial statements of these groups are available from 745 Seventh Avenue, New York, USA and First Floor, No 6 Broadgate, London EC2M 2QS