

Preferred Mortgages Residuals 2 Limited

Report and Financial Statements

30 November 2009

Registered No 05077665

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COMPANIES HOUSE

Preferred Mortgages Residuals 2 Limited

Registered No 05077665

Directors

L Brandon

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 director presents this report and the audited financial statements for the year ended 30 November 2009

Principal activities

The principal activity of the Company is to receive residual cash flows from Preferred Residential Securities 8 plc and pay these cash flows on to counterparties that they are due to

Business review and future developments

On 17 December 2008, the residual financing loan from HypoVereinsbank was repaid in full. During the year, the Company received residual income of £nil (2008 – £1,070,817). There was no trading and minimal activity in the Company during the year except for minor expenses. The director has no immediate intention to liquidate the company so as to enable the recovery of a significant corporation tax refund.

On 2 April 2008 Preferred Mortgages Limited announced a suspension of their mortgage lending activities.

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

Results

The results for the year are shown in the profit and loss account on page 8. The prior year results have been restated as disclosed in note 1 to the accounts.

Dividend

The director does not recommend the payment of a dividend for the year (2008 – £nil).

Events after balance sheet date

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

Going concern

Preferred Mortgages Limited (the intermediate parent undertaking) 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.

Given the current continued availability of support for the running cost of the Company, the director considers that the company will be able to continue in operational existence for the foreseeable future.

Based on the current situation the director believes that it remains appropriate to prepare the financial statements on a going concern basis. At the date of signing the accounts the company had been restored to a net asset position and as such the director is of the opinion that the company will continue to meet its obligations as they fall due, and accordingly the financial statements have been prepared on a going concern basis.

Directors' report

Directors

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

A Attia	(resigned 12 January 2009)
P Chambers	(resigned 14 October 2009)
S Staid	(resigned 5 January 2009)
Wilmington Trust SP Services (London) Limited	(resigned 14 July 2010)
L Brandon	(appointed 14 July 2010)

On 27 January 2009 Clifford Chance Secretaries (CCA) Limited resigned as company secretary and Wilmington Trust SP Services (London) Limited were appointed on 25 February 2009

Policy and practice on payment of creditors

The Company does not follow any stated code on payment practice. It is the Company's policy to agree terms of payment with suppliers when agreeing the terms of each transaction and to abide by those terms. Standard terms provide for payment of all invoices within 30 days after the date of the invoice, except where different terms have been agreed with the supplier at the outset. It is the policy of the Company to abide by the agreed terms of payment. There are no creditor days of suppliers' invoices outstanding at the year end (2008 – nil days)

Principal risks and uncertainties

Financial instrument risk

The financial instruments held by the Company comprised borrowings has now been fully repaid. The Company is no longer receiving income.

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

Liquidity risk

Liquidity risk is the risk that the Company does not have the cash to meet its intercompany undertakings when they fall due. The ongoing liquidity risk arising from intercompany undertakings is closely monitored by the director.

Credit risk

Credit risk is the risk that intercompany undertakings will be unable to meet their obligations as they fall due. The ongoing credit risk arising from intercompany undertakings is closely monitored by the director.

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 previous 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 Annual General Meeting



Lee Brandon

Director

Date 14 9 10

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Preferred Mortgages Residuals 2 Limited

We have audited the financial statements of Preferred Mortgages Residuals 2 Limited for the year ended 30 November 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 November 2009 and of its 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 the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report

to the members of Preferred Mortgages Residuals 2 Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Andrew Woosey (Senior Statutory Auditor)

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

London

Date 15.9.10

Profit and loss account

for the year ended 30 November 2009

		2009	2008
		£	Restated £
Income from investments		–	1,070,817
Interest received and similar income	2	–	6,020
Operating expenses		2	(674,540)
Profit on ordinary activities before interest and taxation		<u>2</u>	<u>402,297</u>
Interest payable and similar charges	3	–	15,395
Profit on ordinary activities before taxation	4	<u>2</u>	<u>417,692</u>
Tax on profit on ordinary activities	6	(1)	(119,731)
Profit on ordinary activities after taxation	12	<u><u>1</u></u>	<u><u>297,961</u></u>

The profit for the year was derived from continuing operations

The notes on pages 12 to 17 form part of these financial statements

Statement of total recognised gains and losses

for the year ended 30 November 2009

	2009	2008
	£	<i>Restated</i>
<i>Notes</i>		£
<i>Profit for the year</i>	1	458,035
Prior year adjustments	—	(160,074)
<i>Total gains and losses recognised since last financial statements</i>	<u>1</u>	<u>297,961</u>

The notes on pages 12 to 17 form part of these financial statements

Balance sheet

at 30 November 2009

	Notes	2009 £	2008 Restated £
Current assets			
Debtors			
Amounts falling due within one year	7	1,327,535	1,327,636
Cash at bank and in hand		100	—
		<u>1,327,635</u>	<u>1,327,636</u>
Creditors: amounts falling due within one year	9	(1,202,603)	(1,202,605)
		<u>125,032</u>	<u>125,031</u>
Net current assets			
		<u>125,032</u>	<u>125,031</u>
Total assets less current liabilities			
		<u>125,032</u>	<u>125,031</u>
Net Assets		<u>125,032</u>	<u>125,031</u>
Capital and reserves			
Called up share capital	10	1	1
Profit and loss account	11	125,031	125,030
		<u>125,032</u>	<u>125,031</u>
Shareholder's funds	12	<u>125,032</u>	<u>125,031</u>

The notes on pages 12 to 17 form part of these financial statements

These financial statements were approved and signed by the director



Lee Brandon

Director

Date 14 9 10

Cash flow statement

for the year ended 30 November 2009

	Notes	2009 £	2008 Restated £
Net cash inflow from operating activities	13	100	106,682
Taxation			
Corporation tax paid		—	—
Net cash inflow before management of liquid resources and financing		100	106,682
Financing			
Decrease in bank loans and overdrafts	9	—	(106,682)
Increase in cash		100	—
Reconciliation of net cash inflow to movement in net funds			
Increase in cash in year		100	—
Change in net cash resulting from cash flows		100	—
Movement in net funds			
Opening net funds		—	—
Closing net funds		100	—

The notes on pages 12 to 17 form part of these financial statements

Notes to the financial statements

at 30 November 2009

1. Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historic cost convention. The financial statements have been prepared on a going concern basis.

Going concern

Preferred Mortgages Limited (the intermediate parent undertaking) 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. Given the current continued availability of support for the running cost of the Company, the directors consider that the Company will be able to continue in operational existence for the foreseeable future.

Based on the current situation the director believes that it remains appropriate to prepare the financial statements on a going concern basis. At the date of signing the accounts the Company had been restored to a net asset position and as such the director is of the opinion that the Company will continue to meet its obligations as they fall due, and accordingly the financial statements have been prepared on a going concern basis.

Prior year adjustments

In order to present a true and fair view of the Company's financial statements, the Company has made adjustments to the prior period figures in the profit and loss account and balance sheet as at 30 November 2008 to reinstate the amount owing to Southern Pacific Residuals 4 Ltd and amount receivable from Preferred Mortgages Limited. The comparative figures have been restated as follows:

	<i>Profit for the year</i>	<i>Net assets</i>
	£	£
As previously reported as at 30 November 2008	458,035	285,105
<i>Effect of fundamental error</i>		
Corporation tax	64,339	64,339
Income from investments	(224,413)	(224,413)
As restated as at 1 December 2008	<u>297,961</u>	<u>125,031</u>

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 transactions 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 director considers 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 periods 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 30 November 2009

2. Interest receivable and similar income

	2009	2008
	£	£
Interest receivable	–	6,020

3. Interest payable and similar charges

	2009	2008
	£	£
Bank loans	–	(100,454)
Interest payable – related party loans	–	85,059
	–	(15,395)

4. Profit on ordinary activities before taxation

	2009	2008
	£	£
Profit on ordinary activities before taxation is stated after charging		
Amortisation of current asset investment	–	106,682
Auditors' remuneration – audit services	–	12,000

Auditors' remuneration for the current year is borne by Preferred Mortgages Limited

5. Information regarding directors and employees

The Company has no employees (2008 – none) The directors received no remuneration from the Company during the year (2008 – £nil) The previous director received £5 000 in remuneration from the Company during the year

Notes to the financial statements

at 30 November 2009

6. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2009	2008 <i>Restated</i>
	£	£
<i>Current tax</i>		
UK Corporation tax on profit of the year	1	119,739
Current tax charge for year	<u>1</u>	<u>119,739</u>

(b) Factors affecting tax charge in the year

The tax assessed for the year is equal to the standard rate for current corporation tax in the UK of 28% (2008 – 28.67%). The differences are explained below

	2009	2008 <i>Restated</i>
	£	£
Profit on ordinary activities before tax	2	417,692
<i>Effects of</i>		
Profit on ordinary activities multiplied by the standard rate of corporation tax of 28% (2008 – 28.67%)	1	119,739
Current tax charge for year	<u>1</u>	<u>119,739</u>

7. Debtors: amounts falling due within one year

	2009	2008 <i>Restated</i>
	£	£
Amounts owed by group and related undertakings	1,202,504	1,202,604
Corporation tax receivable	125,031	125,032
	<u>1,327,535</u>	<u>1,327,636</u>

Notes to the financial statements

at 30 November 2009

8. Investments

	2009	2008
	£	£
Investments brought forward	–	106,682
Amortised during year	–	(106,682)
Investment carried forward	–	–

The consideration was based on the future cash flows anticipated to be received from the Preferred Residential Securities 8 plc securitisation over a three year period. The investments are amortised over the profile of expected cash flows over this three years and is the best estimate at year end. Investments were fully amortised at 30 November 2008.

9. Creditors: amounts falling due within one year

	2009	2008
	£	<i>Restated</i> £
Amounts owed to group undertakings	1,202,603	1,202,603
Other creditors	–	2
	1,202,603	1,202,605

10. Issued share capital

	2009	2008
	£	£
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	1	1

11 Profit and loss account

	2009	2008
	£	<i>Restated</i> £
Retained profit/(loss) brought forward	125,030	(172,931)
Profit for the year	1	458,035
<i>Priory year adjustment for</i>		
Income from investments	–	(224,413)
Corporation tax	–	64,339
Retained profit carried forward (adjusted)	125,031	125,030

Notes to the financial statements

at 30 November 2009

12. Reconciliation of movements in shareholder's funds

	2009	2008 <i>Restated</i>
	£	£
Opening shareholder's funds/(deficit)	125,031	(172,930)
Profit for the year	1	458,035
<i>Priory year adjustment for</i>		
Income from investments	–	(224,413)
Corporation tax	–	64,339
Closing shareholder's funds (adjusted)	125,032	125,031

13. Reconciliation of operating profit to cash generated by operations

	2009	2008 <i>Restated</i>
	£	£
Operating profit from continuing operations	2	417,692
Decrease/(increase) in receivables	100	(515,047)
Decrease/(increase) in investments	–	106,682
Increase/(decrease) in payables	(2)	97,355
Net cash outflow from ordinary operating activities	100	106,682

14. Reconciliation of net cash flow to movement in net funds

	2009	2008
	£	£
Increase in cash in the year	100	–
Cash outflow from decrease in loans	–	106,682
Change in net debt resulting from cash flows	100	106,682
Net debt at start of the year	–	(106,682)
Net debt at end of the year	100	–

Notes to the financial statements

at 30 November 2009

15. Related party transaction

During the year, Preferred Mortgages Residuals 2 Limited has been charged the following amounts of interest by the below entities and the amounts outstanding at the end of the year was

	<i>Interest received</i>	<i>Interest paid</i>	<i>Amounts due from related parties 2009</i>	<i>Amounts owed to related parties 2009</i>
	<i>2009</i>	<i>2009</i>	<i>2009</i>	<i>2009</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Preferred Mortgages Limited	—	—	1,202,504	—
Capstone Mortgage Services	—	—	—	16,556
Southern Pacific Residual 4 Limited	—	—	—	1,186,047
Total related party transactions	—	—	1,202,504	1,202,603

	<i>Interest received</i>	<i>Interest paid</i>	<i>Amounts owed from related parties 2008</i>	<i>Amounts owed to related parties 2008</i>
	<i>2008</i>	<i>2008</i>	<i>2008</i>	<i>2008</i>
	<i>£</i>	<i>£</i>	<i>Restated</i>	<i>Restated</i>
			<i>£</i>	<i>£</i>
Preferred Mortgages Limited	—	58,932	1,202,604	—
Capstone Mortgage Services	—	—	—	16,556
Southern Pacific Residual 4 Limited	—	26,127	—	1,186,047
Total related party transactions	—	85,059	1,202,604	1,202,603

16. Ultimate parent undertaking

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

The ultimate parent company of the Company is Lehman Brothers Holding Inc, which is incorporated in the State of Delaware in the United States of America. On 15 September 2008, the ultimate parent company 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 Resefan Limited registered in England and Wales

17 Events since the balance sheet date

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