

Southern Pacific Residuals 2 Limited

Report and Financial Statements

30 November 2012

Registered No 04448321



Southern Pacific Residuals 2 Limited

Registered No 04448321

Director

L Brandon

Auditors

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

Registered Office

Level 23
25 Canada Square
London
E14 5LQ

Director's report

The Director presents his report and the audited financial statements, for the year ended 30 November 2012

Principal activities

The principal activity of the Company was to purchase and benefit from the residual cash flows generated by Southern Pacific Securities 05-3 plc. Certain bank loans and overdrafts of the Company were secured on the residual cash flows generated by Southern Pacific Securities 05-3 plc.

Business review and future developments

The Company is a special purpose vehicle which received residual financing to purchase the residual income from the Southern Pacific Securities 05-3 plc securitisation. During the year, the Company received no residual income (2011: £12k). The income received during 2011 was used to make payments against the residual financing loan from Barclays Bank plc. These loans were fully repaid during 2011.

It is the intention of the Director that the Company will continue to collect any remaining residual cash flows and use these cash flows to repay the funding line from its immediate parent. The Director has no immediate intention to liquidate the Company.

Results

The results for the year are shown in the profit and loss account on page 8.

Dividend

The Director does not recommend a dividend for the year (2011: £nil).

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 and future developments section of this report.

On 2 April 2008, Southern Pacific Mortgage Limited, the immediate parent company, 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.

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

On 23 September 2008, a principal creditor of the immediate parent company, 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 (the "Bankruptcy Court") 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 ("Other Debtors", those entities which also filed for Chapter 11 protection in the Bankruptcy Court) have emerged from bankruptcy. Following these, distributions were made and Southern Pacific Mortgage Limited received cash payments from its receivable from Affiliated Debtors.

Moreover, as at 30 November 2012, the Company is dependent on the support of group undertakings. Company's expenses continue to be paid by Southern Pacific Mortgage Limited (the intermediate parent undertaking), which in turn is funded from other group undertakings, primarily Storm Funding Limited (in administration). As at date of sign-off, Southern Pacific Mortgage Limited has sufficient cash to repay its obligations.

Director's report

Going concern (continued)

Whilst Southern Pacific Mortgage Limited has sufficient cash to repay its obligations to Storm Funding Limited (in administration), the Director acknowledges that the overall intention of the Resetfan Group, which the Company forms part of, to continue as a going concern is dependent on the decision of the joint administrators of Mable Commercial Funding Limited (in administration) as the parent entity of the Resetfan Group. Nonetheless, having made enquiries with the joint administrators, the Director believes that the overall strategy and intention to continue operating in order to realise their assets and settle their liabilities is supported by the joint administrators. However, no assurance can be given that the current intention will not change within the 12 month period from sign-off and all legal rights are retained by the joint administrators of Mable Commercial Funding Limited (in administration).

The Director has concluded that there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore to continue realising its assets and discharging its liabilities in an orderly manner. Nevertheless, after making enquiries and considering the uncertainties described above the Director has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore continues to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern. The financial statements have been prepared in accordance with the accounting policies adopted in the prior year, as set out in note 1 'Accounting Policies'.

Director

The Director who held office during the year, and after the year end, was as follows

L Brandon

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 (2011: nil days).

Financial instruments

The financial instruments held by the Company comprise intercompany borrowings and cash at bank.

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 risk arising from the Company's financial instruments is liquidity risk. The Director reviews and agrees policies for managing this risk and they are summarised below. These policies have remained unchanged from 2011.

Liquidity risk

Liquidity risk is the risk that the cash flows will not arise in a timely manner to meet the Company's obligations as they fall due. The ongoing liquidity risk is closely monitored by the Director.

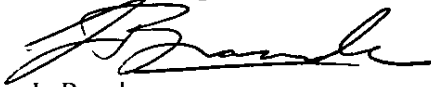
Director's report

Disclosure of information to auditors

So far as the 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, the Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

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



L. Brandon

Director

Date 21 August 2013

Statement of director's responsibilities in respect of the financial statements

The Director is responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations

Company law requires the Director to prepare financial statements for each financial year. Under that law the Director has 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 Director must not approve the financial statements unless he is 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 Director is 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 Director is 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 him to ensure that the financial statements comply with the Companies Act 2006. He is 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 Southern Pacific Residuals 2 Limited

We have audited the financial statements of Southern Pacific Residuals 2 Limited for the year ended 30 November 2012 which comprise the Profit and Loss Account the Balance Sheet and the related notes 1 to 12. 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 Director's Responsibilities Statement set out on page 5, the Director is 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 Director's report and financial statements to identify material inconsistencies in the audited financial statements. 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 2012 and of its loss 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.

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The conditions explained in note 1 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Director's 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 Southern Pacific 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 Director's remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit



Amarjit Singh (Senior Statutory Auditor)

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

Date 21 August 2013

Profit and loss account

for the year ended 30 November 2012

	Notes	2012 £000	2011 £000
Income from investments		-	12
Operating expenses		<u>(19)</u>	<u>(94)</u>
Loss on ordinary activities before interest and taxation		(19)	(82)
Interest receivable and similar income	2	-	8
Interest payable and similar charges	3	-	(71)
Write off non recourse finance loan balance		<u>-</u>	<u>1,716</u>
(Loss)/profit on ordinary activities before taxation	4	(19)	1,571
Tax on (loss)/ profit on ordinary activities	6	<u>-</u>	<u>345</u>
(Loss)/profit for the year		<u>(19)</u>	<u>1,916</u>

The (loss)/ profit for the year was derived from continuing operations

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


The notes on pages 10 to 14 form part of these financial statements

Balance sheet

at 30 November 2012

	Notes	2012 £000	2011 £000
Current assets			
Debtors			
Amounts falling due within one year	7	402	395
Cash at bank and in hand		5	20
		<u>407</u>	<u>415</u>
Creditors amounts falling due within one year	8	<u>(28)</u>	<u>(17)</u>
Net current assets		<u>379</u>	<u>398</u>
Net assets		<u>379</u>	<u>398</u>
Capital and reserve			
Called up share capital	9	-	-
Profit and loss account	10	<u>379</u>	<u>398</u>
Shareholder's funds	11	<u>379</u>	<u>398</u>

These financial statements were approved and signed by the Director



L. Brandon
Director

Date 21 August 2013

The notes on pages 10 to 14 form part of these financial statements

Notes to the financial statements

at 30 November 2012

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

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 and future developments section of the Director's Report.

On 2 April 2008, Southern Pacific Mortgage Limited, the immediate parent company 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.

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

On 23 September 2008, a principal creditor of the immediate parent company, 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 (the "Bankruptcy Court") 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 ("Other Debtors", those entities which also filed for Chapter 11 protection in the Bankruptcy Court) have emerged from bankruptcy. Following these, distributions were made and Southern Pacific Mortgage Limited received cash payments from its receivable from Affiliated Debtors.

Moreover, as at 30 November 2012, the Company is dependent on the support of group undertakings. The Company continues to have amounts owed to group and related undertakings that are payable on demand. Southern Pacific Mortgage Limited (the intermediate parent undertaking), which in turn is funded from other group undertakings, primarily Storm Funding Limited (in administration). As at date of sign-off, Southern Pacific Mortgage Limited has sufficient cash to repay its obligations.

Whilst Southern Pacific Mortgage Limited has sufficient cash to repay its obligations to Storm Funding Limited (in administration), the Director acknowledges that the overall intention of the Resetfan Group to which the Company forms part of, to continue as a going concern is dependent on the decision of the joint administrators of Mable Commercial Funding Limited (in administration) as the parent entity of the Resetfan Group. Nonetheless, having made enquiries with the joint administrators, the Director believes that the overall strategy and intention to continue operating in order to realise their assets and settle their liabilities is supported by the joint administrators. However, no assurance can be given that the current intention will not change within the 12 month period from sign-off and all legal rights are retained by the joint administrators of Mable Commercial Funding Limited (in administration).

Notes to the financial statements

at 30 November 2012

1. Accounting policies (continued)

Going concern (continued)

The Director has concluded that there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore to continue realising its assets and discharging its liabilities in an orderly manner. Nevertheless, after making enquiries and considering the uncertainties described above the Director has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and therefore continues to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Investments

Investments represent the Company's investment in the cash flows of Southern Pacific Securities 05-3 plc and are stated at cost less amortisation. Amortisation is charged based upon the Director's expectation of the profile of the cash flows from the investment.

Cash flow statement and related party disclosure

The Company has taken advantage of the exemption under Financial Reporting Standard (FRS) 1 (revised) and has not produced a cash flow statement, since it is a wholly owned subsidiary and its intermediate parent undertaking, Resefan Limited, prepares consolidated financial statements that are publicly available and include a cash flow statement. The Company is also exempt under the terms of FRS 8, "Related Party Disclosures", from disclosing related party transactions with entities that are part of the Resefan Limited group.

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.

2. Interest received and similar income

	2012 £000	2011 £000
Bank interest	-	5
Interest receivable from HMRC	-	3
	<u>-</u>	<u>8</u>

3. Interest payable and similar charges

	2012 £000	2011 £000
Bank loans	<u>-</u>	<u>71</u>

Notes to the financial statements

at 30 November 2012

4. (Loss)/ profit on ordinary activities before taxation

	2012 £000	2011 £000
(Loss)/ profit on ordinary activities before taxation is stated after charging		
Auditors' remuneration	19	90
Audit fees are paid by Southern Pacific Mortgages Limited		

5. Information regarding director and employees

The Company has no employees. The Director received no remuneration from the Company during the year (2011: £nil). The Director's remuneration is borne by Southern Pacific Mortgage Limited and is disclosed in the financial statements of that company.

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

(a) Analysis of tax charge in the year

	2012 £000	2011 £000
Current tax		
Adjustment in respect of prior periods	-	(345)
Total current tax	-	(345)

(b) Factors affecting tax charge in the year

The tax assessed for the year differs from the standard rate for current corporation tax in the UK of 24.67% (2011: 26.67%). The differences are explained below:

	2012 £000	2011 £000
(Loss)/ profit on ordinary activities before tax	(19)	1,571
(Loss)/ profit on ordinary activities multiplied by the standard rate of corporation tax of 24.67% (2011: 26.67%)	(5)	419
Effects of:		
Expenses not deductible for tax purposes	-	3
Adjustment in respect of prior periods	-	(31)
Receipt for group losses surrendered	-	(314)
Tax losses carried forward not recognised	5	-
Utilisation of tax losses	-	(422)
Current tax charge/ (credit) for year	-	(345)

Notes to the financial statements

at 30 November 2012

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

Losses of £1,560,686 (2011 £1,536,479) resulting in a deferred tax asset of £358,958 (2011 £384,120) have not been recognised. The deferred tax asset has not been recognised due to the uncertainty surrounding the Company's future profitability.

The reduction in the UK corporation tax rate to 23% was substantively enacted in July 2012 and was effective from 1 April 2013. Further reductions in the UK corporation tax rate from 23% to 21% with effect from 1 April 2014 and to 20% from 1 April 2015 were announced in the March 2013 budget and substantively enacted in July 2013.

The aggregate impact of the proposed reductions in the corporation tax rate would reduce the deferred tax asset by £46,821.

7. Debtors, amounts falling due within one year

	2012 £000	2011 £000
Amounts owed by group and related undertakings	402	361
Other debtors	-	34
	<u>402</u>	<u>395</u>

8. Creditors: amounts falling due within one year

	2012 £000	2011 £000
Accruals and deferred income	28	17
	<u>28</u>	<u>17</u>

9. Issued share capital

	2012		2011	
<i>Allotted, called up and fully paid</i>	<i>No</i>	<i>£</i>	<i>No</i>	<i>£</i>
Ordinary shares of £1 each	1	<u>1</u>	1	<u>1</u>

Notes to the financial statements

at 30 November 2012

10 Movements on reserves

	2012 £000	2011 £000
Retained profit/(loss) brought forward	398	(1,518)
(Loss)/ profit for the year	<u>(19)</u>	<u>1,916</u>
Retained profit carried forward	<u>379</u>	<u>398</u>

11 Reconciliation of shareholder's funds

	2012 £000	2011 £000
Opening shareholder's funds/ (deficit)	398	(1,518)
(Loss)/ profit for the year	<u>(19)</u>	<u>1,916</u>
Closing shareholder's funds	<u>379</u>	<u>398</u>

12. Ultimate parent undertaking

The Company is controlled by its parent undertaking, Southern Pacific Mortgage Limited, which is registered and operates in the United Kingdom

The ultimate parent undertaking of Southern Pacific Residuals 2 Limited is Lehman Brothers Holdings Inc, which is incorporated in the State of Delaware in the United States of America. On 15 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 Resettan Limited, registered in England and Wales. The consolidated financial statements will be available at Level 23, 25 Canada Square, London, E14 5LQ.