Southern Pacific 04-A Parent Limited

Report and Financial Statements

30 November 2008

Registered No: 05014807

Registered No: 05014807

Directors
S Lawrence
Capita Trust Corporate Services Limited
Capita Trust Corporate Limited

Secretary
Capita Trust Secretaries Limited
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Auditors
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Directors' report

The directors present their report and the audited financial statements for the year ended 30 November 2008.

Principal activities

The principal activity of the Company is that of a holding company. The principal activity of the Group is the investment in mortgage loans secured by first charges over properties within the United Kingdom.

Business review

On 28 April 2004 the Group purchased £348,580,536 of mortgages from Southern Pacific Mortgage Limited. Further consideration may be payable dependent on future performance of the mortgages. To facilitate the purchase, the Group issued a series of mortgage-backed loans on 28 April 2004.

The consolidated profit and loss account for the year ended 30 November 2008 is set out on page 9. The Group's business activities, together with the factors likely to affect its future development, performance and position are set out below.

The current economic environment is difficult, but the Group has reported an operating profit for the year after Financial Reporting Standard No.26 adjustments. The directors' consider that the outlook presents significant challenges in meeting the capital repayments and interest due to the holders of the loan notes as and when they fall due.

The directors have concluded that the Group will continue as a going concern and set out the basis for this conclusion in the Going Concern section of this report.

As required by Financial Reporting Standard No. 26, the result for the year includes a fair value loss on derivative financial instruments of £72,641 (2007: £70,678 gain).

At the year end the mortgage balance after the effective interest rate adjustment, was £39,175,339 (2007: £60,230,579). At December 2008 Interest Payment Date the Group held the following mortgage loans, excluding the effective interest rate adjustment:

	Principal balance £000	*Number of loans*
First Mortgages	39,604	414
Total	39,604	414

These mortgages provide security against loan notes in issue totalling £39,603,880 as at the December 2008 Interest Payment date.

The mortgage loans generated a weighted average margin over funding costs of 1.94% during the year, before considering the adjustments for Financial Reporting Standard No. 26. The weighted average cost of funds for the year was 6.03%.

Directors' report

Business review (continued)

The mortgage loans exhibited the following quarterly arrears profile:

	Q1	*Q2*	*Q3*	*Q4*
	%	*%*	*%*	*%*
Delinquencies days – (excluding repossessions)				
Current	70.22	68.44	69.17	69.79
>30<=60	7.88	8.04	6.00	6.21
>60<=90	5.79	4.65	5.94	6.11
>90<=120	5.76	3.45	4.14	3.99
>120	10.35	15.42	14.75	13.90
Total	100.00	100.00	100.00	100.00

At the March 2009 Interest Payment Date following the year end, the mortgage loan balance was £37,931,761, 21.23% of the balance was greater than 3 months in arrears.

The directors consider the level of arrears to be within expectations and have not made any adjustment to the provisions recorded as at the year end.

The performance of the mortgage loans during the year to 30 November 2008 enabled deferred consideration of £nil (2007: £nil) to be paid to the current holder of the rights to the residual cash flows of the securitisation.

Going concern

As described in the Business Review, the Group has reported an operating profit for the year.

The Group is in a net liability position as at 30 November 2008 due to the impairment of the mortgage loans. Should this impairment not reverse in forthcoming periods the Group may be unable to meet capital repayments and interest due to the holders of the loan notes as and when they fall due.

It is the intention of the Directors of the Group to continue operations until such a time as the amount due from mortgage loans have been fully realised. Ultimately, due to the non-recourse nature of the mortgage backed loan notes, any shortfall in the proceeds from the mortgage assets will be a risk to the holders of those notes and accordingly the financial statements have been prepared on a going concern basis.

Fair value

Note 18 discloses the fair values of the mortgage assets and non recourse loan notes. The directors noted that as at 30 November 2008 the respective fair values of the mortgage assets and non recourse loan notes are less than the carrying values recorded in the balance sheet.

The directors believe that this is reasonable, based on the global contraction of credit markets, the challenges faced by the sub prime mortgage sector and the decline in market demand for mortgage backed securities.

As no liquid market exists for either the mortgage loans or non recourse loan notes, the directors have ascribed an approximate fair value based on an internal discounted cash flow model that is used to value non-securitised mortgage loan receivables. This model takes into account expected payment rates, arrears, house price movements, level of repossessions, losses and discount rates based on the most recent available information.

The fair values disclosed do not necessarily represent the directors' view of the current value of the predicted future cash flows on either the mortgage asset receivables or non recourse loan notes.

Directors' report

Dividend

The directors do not recommend the payment of a dividend for the year (2007: £nil).

Policy and practice on payment of creditors

The Group 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 suppliers at the outset. It is the policy of the Group to abide by the agreed terms of payment. There are no creditor days of suppliers' invoices outstanding at the year end.

Directors

The directors who held office during the year were as follows:

S Lawrence (appointed 29 June 2009)
Capita Trust Corporate Limited (appointed 27 November 2008)
Capita Trust Company Limited (resigned 27 November 2008)
Capita Trust Corporate Services Limited

Clifford Chance Secretaries Limited resigned as Group Secretary on 27 November 2008, and Capita Trust Secretaries Limited was appointed as secretary to the Group on 27 November 2008.

Principal risks and uncertainties

Financial instrument risk

The financial instruments held by the Group comprise mortgage assets, borrowings, cash and various other items (such as trade debtors, trade creditors etc) that arise directly from its operations.

The Group also entered into derivative transactions where necessary (principally interest caps) to manage its interest rate risk.

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

The main risks arising from the Group'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 mortgages purchased by the Group were required to adhere to specific lending criteria. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts in arrears) 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 Group 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 Group considers the use of derivative financial instruments to mitigate any residual interest rate risk.

Liquidity risk

The Group's policy is to manage liquidity risk by matching the timing of the cash receipts from mortgage assets with those of the cash payments due on the loan notes. In addition the Group holds a minimum cash balance to manage short term liquidity requirements.

Directors' report

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 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.

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

Director: Capita Trust Corporate Services Ltd

Date: 25 SEP 2009

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual 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). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group 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 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ERNST & YOUNG

Independent auditors' report

to the members of Southern Pacific 04-A Parent Limited

We have audited the Group and Parent company financial statements of Southern Pacific 04-A Parent Limited for the year ended 30 November 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 23. 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 Group's and 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.

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 Group's and parent company's affairs as at 30 November 2008 and of the Group's 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

Ernst & Young LLP
Registered Auditor
London
26 September 2009

Consolidated profit and loss account

for the year ended 30 November 2008

	Notes	*2008* *£000*	*2007* *£000*
Interest receivable and similar income	2	4,891	7,420
Interest payable and similar charges	3	(3,732)	(7,469)
Net interest receivable/(payable)		1,159	(49)
Net fair value (loss)/gain on derivatives		(73)	71
Other operating income	4	227	661
Total operating income		1,313	683
Operating expenses		(1,152)	(1,382)
Profit/(loss) on ordinary activities before taxation	5	161	(699)
Tax on profit/(loss) on ordinary activities	6	(27)	140
Profit/(loss) on ordinary activities after taxation	16	134	(559)

The profit for the year was derived from continuing operations.

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

The notes on pages 13 to 27 form part of these financial statements.

Consolidated balance sheet

at 30 November 2008

	Notes	2008 £000	2007 £000
Current assets			
Debtors:			
Amounts falling due after one year	11	38,558	58,361
Amounts falling due within one year	12	1,188	2,938
Cash at bank and in hand		11,235	20,077
		50,981	81,376
Creditors: amounts falling due within one year	13	(4,965)	(5,174)
Net current assets		46,016	76,202
Creditors: amounts falling due after one year	14	(46,232)	(76,552)
Net liabilities		(216)	(350)
Capital and reserves			
Called up share capital	15	13	13
Profit and loss account	16	(229)	(363)
Shareholders' deficit	17	(216)	(350)

The notes on pages 13 to 27 form part of these financial statements.

These financial statements were approved by the board of directors and were signed on its behalf by:

Director Capita Trust Corporate Services Ltd

Date 25 SEP 2009

Company balance sheet
at 30 November 2008

	Notes	*2008* *£000*	*2007* *£000*
Fixed assets			
Investments	8	13	13
Net assets		13	13
Capital and reserves			
Called up share capital	15	13	13
Profit and loss account	16	–	–
Shareholder's funds	17	13	13

The notes on pages 13 to 27 form part of these financial statements.

These financial statements were approved by the board of directors and were signed on its behalf by:

Director Capita Trust Corporate Services Ltd

Date 25 SEP 2009

Consolidated cash flow statement

for the year ended 30 November 2008

	Notes	Year ended 30 November 2008 £000	Year ended 30 November 2007 £000
Net cash outflow from operating activities	19	(1,044)	(1,752)
Returns on investment and servicing of finance			
Interest on mortgage loans		4,120	7,371
Other interest received		892	1,098
Interest on mortgage backed loan notes		(3,315)	(6,200)
Interest on subordinated loan		(328)	(409)
Other interest paid		–	(293)
		1,369	1,567
Capital expenditure and financial investment			
Proceeds from mortgage loans		21,242	65,259
Net cash inflow before management of liquid cash resources and financing		21,567	65,074
Financing			
Repayment of subordinated loan	20	(1,178)	(999)
Repayment of mortgage backed loan notes	20	(29,231)	(70,473)
		(30,409)	(71,472)
Decrease in cash in year		(8,842)	(6,398)

Reconciliation of movement in net cash flow to movement in net debt

	Notes	Year ended 30 November 2008 £000	Year ended 30 November 2007 £000
Decrease increase in cash in year		(8,842)	(6,398)
Repayment of subordinated loan		1,178	999
Repayment of mortgage backed loan notes		29,231	70,473
Change in net debt resulting from cash flows	20	21,567	65,074
Fair value movements		(73)	75
Movement in capitalised issue costs		(89)	(609)
Movement in net debt		21,405	64,540
Net debt as at 1 December 2007	20	(56,402)	(120,942)
Net debt as at 30 November 2008	20	(34,997)	(56,402)

The notes on pages 13 to 27 form part of these financial statements.

Notes to the financial statements

at 30 November 2008

1. Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable UK accounting standards and under the historical cost convention except for derivative financial instruments which are carried at fair value through the profit and loss account. The financial statements have been prepared on a going concern basis as referred to in the Going concern section of the Directors' Report.

In preparing the financial statements for the current year, the group has adopted Financial Reporting Standard No. 29, 'Financial Instruments: Disclosures'. The adoption of Financial Reporting Standard No. 29, 'Financial Instruments: Disclosures' has resulted in no change to the Group's brought forward retained earnings. The only impact arising from the adoption is the additional disclosures which are provided in Note 18.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiaries for the year ended 30 November 2008. All the subsidiaries are accounted for using acquisition accounting.

In accordance with section 230 (4) of the Companies Act 1985, Southern Pacific 04-A Parent Limited is exempt from the requirement to present its own profit and loss account. The result for the year of Southern Pacific 04-A Parent Limited is disclosed in note 16 to the financial statements.

Income recognition

Interest income on mortgage loan assets is recognised in the profit and loss account on an Effective Interest Rate (EIR) basis. The EIR recognises revenue equivalent to the rate that effectively discounts estimated future cash flows throughout the estimated life to the net carrying value of the loan.

Mortgage loans

Mortgage loans are valued on the amortised cost basis using the effective interest rate method, less provision made to reduce the value of the loans to their estimated recoverable amount. Provisions are made against mortgages when in the opinion of the directors, credit risk or economic risk make recovery doubtful. A loan premium is recognised where mortgages are acquired at amounts in excess of the amount recoverable from customers. This loan premium is amortised over the expected life of the mortgages.

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

A charge for impairment would be recognised where there is a risk that the income on the mortgage assets will be significantly reduced. This could occur if the credit quality of the mortgage assets deteriorated significantly and is calculated in accordance with the provisions policy below.

Provisions

Specific provisions for losses on loans and advances to customers are made throughout the year and at the year-end on a case by case basis (calculated with reference to the probability of the loan defaulting and the value of the security held against the loan). The specific provision for properties in possession is based on the balance outstanding less a discounted valuation of the security held (with adjustments for expenses of sale).

Notes to the financial statements

at 30 November 2008

1. Accounting policies (continued)

Fixed asset investment

The Company's investment in subsidiary companies is stated at cost, less provision for diminution in value where the directors consider this necessary.

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 taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that have occurred at that date that will result in an obligation to pay more, or a right to pay less tax with the following exceptions:

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 future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred consideration

Deferred consideration represents further amounts payable on the acquisition of mortgages from Southern Pacific Mortgage Limited. The payment of these amounts is conditional on the performance of the mortgages.

Under the terms of the securitisation the Group earns an annual profit in an amount equal to 0.01 per cent of the aggregate balances of the loans in the mortgage pool. This is reflected in the profit and loss before any movements on fair value gains and losses on derivatives and Effective Interest Rate adjustments.

Profits in excess of 0.01 per cent accrue to the current holder of the rights to the residual cash flows of the securitisation, as deferred consideration. Accordingly, amounts owing to the current holder of the rights to the residual cash flows of the securitisation are recognised as creditors in the balance sheet.

Derivatives

The Group uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Financial Reporting Standard No. 26 requires all derivative financial instruments to be recognised initially at fair value on the balance sheet. Subsequent to initial recognition, derivatives are remeasured to fair value. Where the value of the derivative is positive, it is carried as a derivative asset and, where negative, as a derivative liability. The gain or loss on remeasurement to fair value is recognised immediately in the profit and loss account. The fair value of the interest rate caps is the estimated amount that the Group would receive or pay to terminate the caps at the balance sheet date.

Interest rate caps

A series of amortising interest rate caps were entered into in order to manage the Group's interest rate risk in relation to fixed rate mortgage loans. The derivative contracts matched the expected profile of the run-off of the fixed rate loans.

Issue costs

Initial issue costs incurred in arranging funding facilities are amortised over the life of the facility. Unamortised initial issue costs are deducted from the associated liability in accordance with Financial Reporting Standard No. 26 and costs amortised in the year are included in interest payable.

Notes to the financial statements

at 30 November 2008

1. Accounting policies (continued)

Mortgage-backed loan notes

Mortgage-backed loan notes are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, the mortgage-backed loan notes are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowings on an effective interest basis.

The repayment of the loan notes is dependent on principal and interest collections on the mortgage loans. The directors periodically review the estimated future cash flows on the mortgage loans to determine whether the amortised cost carrying value of the loan notes requires adjustment. If a shortfall in the cash flows is identified, an adjustment is credited to the profit and loss account to reduce the carrying value of the loan notes.

Turnover

The Group's income and trade are wholly within the UK and within a single market sector and therefore no segmental analysis has been presented.

2. Interest receivable and similar income

	2008	*2007*
	£000	*£000*
On mortgage loans	4,156	6,306
Other interest	735	1,114
	4,891	7,420

3. Interest payable and similar charges

	2008	*2007*
	£000	*£000*
Mortgage backed loan notes	3,315	6,200
Start up loan	328	409
Amortisation of issue costs	89	567
Other interest	–	293
	3,732	7,469

4. Other operating income

	2008	*2007*
	£000	*£000*
Redemption fees	111	410
Sundry fee income	116	251
	227	661

Notes to the financial statements

at 30 November 2008

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

This is stated after charging:

	2008	*2007*
	£000	*£000*
Auditors' remuneration – For audit services – Group	17	10
– Company	4	4
Deferred consideration	342	668
Provision of mortgage loans	41	(935)
Amortisation of premium paid on purchase of mortgage assets	50	268
Bad debts incurred on mortgage loans	327	593
Write off of subordinated loan	(107)	–

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

(a) Analysis of tax charge/(credit) in the year

	2008	*2007*
	£000	*£000*
Current tax:		
UK corporation tax on profit/(loss) in the year	–	–
Total current tax (note 6(b))	–	–
Deferred tax:		
Origination and reversal of timing differences	33	(142)
Effect of rate change in opening liability	(6)	2
Total deferred tax charge/(credit) (note 21)	27	(140)
Tax on profit/(loss) on ordinary activities	27	(140)

(b) Factors affecting the tax charge in the year

The tax assessed for the year is lower than the small companies rate of corporation tax in the UK of 21% (2007: 20%). The factors affecting the tax charge are explained below:

	2008	*2007*
	£000	*£000*
Profit/(loss) on ordinary activities before tax	161	(699)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax for small companies of 21% (2007: 20%)	33	(140)
Effects of:		
Other short-term timing differences	(32)	142
Utilisation of tax loss and other deductions	(1)	(2)
Current tax charge for the year (note 6(a))	–	–

Notes to the financial statements

at 30 November 2008

7. Information regarding directors and employees

The Group has no employees (2007: none). The directors received no remuneration from the Group during the year (2007: £nil).

8. Investments

Company

	Shares in group undertakings £000
At 30 November 2007 and 2008	13

The undertakings in which the Company's interest at 30 November 2008 is more than 20% are as follows:

Company	*Principal activity*	*Proportion held*
Southern Pacific Financing 04-A plc	Investment in residential loans	100%

At 30 November 2008 the Company held 49,998 ordinary shares of £1 each in Southern Pacific Financing 04-A plc, and has paid up 25p on each share. The Company also held one fully paid share of £1 in the same company. These holdings represent the entire issued share capital of that company except for one fully paid ordinary share of £1 held by a Trustee on a discretionary basis.

Southern Pacific Financing 04-A plc acts as an investment company, holding mortgages financed by Mortgage Backed Floating Rate Notes. The subsidiary is registered and operates in the United Kingdom. The following information is presented in respect of its financial statements for the year ended 30 November 2008:

	2008 £000	*2007 £000*
Aggregate capital and reserves	(216)	(350)
Profit/(loss) for the year	134	(559)

9. Mortgage loans – net balances

Group

	Mortgage £000	*Mortgage loss provision £000*	*Total £000*
At 1 December 2007	61,384	(1,154)	60,230
Net movement in the year	(21,013)	(41)	(21,054)
At 30 November 2008	40,371	(1,195)	39,176

Mortgage loans of £39,175,339 (2007: £60,230,579) are held as security against the loan notes referred to in note 14.

The current mortgage loans in the pool have loan periods of between 2 to 366 months remaining with current interest rates ranging from 7.25% to 9.50% per annum.

Notes to the financial statements

at 30 November 2008

10. Mortgage loans - Unamortised premium

Group

	2008	*2007*
	£000	*£000*
Opening balance	150	418
Amortisation in the year	(50)	(268)
Closing balance	100	150

11. Debtors: amounts falling due after one year

Group

	2008	*2007*
	£000	*£000*
Mortgage balances	38,507	58,181
Derivative financial instruments	–	73
Premium paid on purchase of mortgage assets	51	107
	38,558	58,361

12. Debtors: amounts falling due within one year

Group

	2008	*2007*
	£000	*£000*
Mortgage balances	669	2,049
Premium paid on purchase of mortgage assets	50	43
Prepayments and accrued income	383	733
Corporation tax	2	2
Deferred taxation (note 21)	84	111
	1,188	2,938

13. Creditors: amounts falling due within one year

Group

	2008	*2007*
	£000	*£000*
Other creditors	623	592
Deferred consideration	3,702	3,360
Accruals and deferred income	640	1,222
	4,965	5,174

Notes to the financial statements

at 30 November 2008

14. Creditors: amounts falling due after one year

Group

	2008	*2007*
	£000	*£000*
GBP Denominated Mortgage backed loan notes due 2042 – Class A with Detachable Coupons	31,022	53,979
GBP Denominated Mortgage backed loan notes due 2042 – Class B	5,172	8,113
GBP Denominated Mortgage backed loan notes due 2042 – Class C	2,844	4,462
GBP Denominated Mortgage backed loan notes due 2042 – Class D	2,155	3,380
GBP Denominated Mortgage backed loan notes due 2042 – Class E	862	1,352
	42,055	71,286
Less: Issue costs	(178)	(267)
Subordinated loan	4,355	5,533
	46,232	76,552

All amounts falling due after one year fall due after five years.

The mortgage backed floating rate notes due 2042 are secured over a portfolio of mortgage loans secured by first charges over residential properties in the United Kingdom.

The mortgages are administered by Capstone Mortgage Services Limited on behalf of Southern Pacific Financing 04-A plc.

The loan notes are repaid as the underlying portfolio redeems. The terms and conditions of the loan notes provide that the loan note holders will receive interest and principal only to the extent that sufficient funds are generated from the mortgage loans. The priority and amount of claims on the portfolio proceeds are determined in accordance with a strict priority of payments. Note holders have no recourse to Southern Pacific Financing 04-A plc in any form.

The mortgage backed floating rate notes are subject to mandatory redemption in part at each interest payment date in an amount equal to the principal received or recovered in respect of the mortgage loans. If not otherwise redeemed or purchased and cancelled, the notes will be redeemed at their principal amount outstanding on the interest payment date falling in September 2042.

The loan notes are repayable out of capital receipts from the mortgage loan receivables, with the Class A Notes ranking in priority to the Class B Notes, which rank in priority to the Class C Notes, which rank in priority to the Class D Notes, which rank in priority to the Class E Notes.

Interest on the notes is payable quarterly in arrears at the following annual rates for three month deposits:

Class A	Sterling LIBOR + 0.25%
Class A Detachable Coupons	(at the rate specified below)
Class B	Sterling LIBOR + 0.60%
Class C	Sterling LIBOR + 0.90%
Class D	Sterling LIBOR + 1.85%
Class E	Sterling LIBOR + 2.50%

On 28 April 2004, Southern Pacific Mortgage Limited made available to the Group a subordinated loan. The loan is repayable to Scarlett Funding No. 1 Limited on or before September 2042 using the amounts available in accordance with the priority of payments as set out in the Note Terms and Conditions. Interest is payable at a rate of 1.1% above the London Interbank Offered Rate for three month sterling deposits.

Notes to the financial statements

at 30 November 2008

14. Creditors: amounts falling due after one year (continued)

The Detachable A Coupon Rate has been calculated in accordance with the terms of the offering circular.

"Detachable A Coupon Rate" means the rate of 0.1 per cent, per annum on each of the first to the fourth Interest Determination Dates (inclusive), the rate of 1.1 per cent, per annum on each of the fifth to the twelfth Interest Periods (inclusive), and 0 per cent at all other times, in each case as at immediately after the application of any Actual Redemption Funds on the preceding Interest Payment Date (or, in respect of the first Interest Payment Date, as at such date).

15. Called up share capital

	2008	*2007*
	£	*£*
Authorised		
Ordinary shares of £1 each	15,000	15,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	12,501	12,501

16. Profit and loss account

	Group	*Company*	*Group*	*Company*
	2008	*2008*	*2007*	*2007*
	£000	*£000*	*£000*	*£000*
Retained (loss)/profit brought forward	(363)	–	196	–
Profit/(loss) for the year	134	–	(559)	–
Retained loss carried forward	(229)	–	(363)	–

17. Reconciliation of movement in shareholders' funds

	Group	*Company*	*Group*	*Company*
	2008	*2008*	*2007*	*2007*
	£000	*£000*	*£000*	*£000*
Opening shareholders' (deficit)/funds	(350)	13	209	13
Profit/(loss) for the year	134	–	(559)	–
Closing shareholders' (deficit)/funds	(216)	13	(350)	13

Notes to the financial statements

at 30 November 2008

18. Derivatives and other financial instruments

Nature and extent of risks arising from financial instruments

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, and liquidity risk. Financial instruments used by the Group for risk management purposes include derivative instruments. Such instruments are used only for commercial hedging purposes, not for trading or speculative purposes. The principal derivative instruments used by the Group in managing its risks are interest rate caps. The maturity profile of the derivative instruments reflects the nature of exposures arising from underlying business activities. All of the Group's derivatives activities are contracted with financial institutions.

During the year, the Group recognised net fair value loss of £72,641 (2007:£70,678 gain) due to the movements in the fair value of derivatives.

The main risks arising from the Group's financial instruments and management of these risks are summarised below:

Credit risk

Credit risk arises primarily from the potential for default in the mortgage loan portfolio. Credit risk is managed through the arrears management process which ensures that mortgages going into arrears are quickly identified and closely monitored.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset as set out in table (a).

Liquidity risk

The underlying mortgage loan assets are funded by the issue of non-recourse floating rate loan notes. Liquidity risk is managed by matching the timing of the cash receipts from mortgage assets with those of the cash payments due on the loan notes. The Group holds a minimum cash balance to manage short-term liquidity requirements.

Interest rate risk

The Group is exposed to interest rate risk where assets and liabilities have interest rates set under different bases or which reset at different times. The Group 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 Group takes out derivative financial instruments to manage interest rate mismatches.

(a) Credit risk

Before taking account of any collateral, the maximum exposure to credit risk as at 30 November was:

	2008	*2007*
	£000	*£000*
Mortgage loans	39,176	60,230
Cash at bank and in hand	11,235	20,077
Derivative financial instruments	–	73
	50,411	80,380

Notes to the financial statements

at 30 November 2008

18. Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(b) Liquidity risk

The contractual undiscounted cash flows associated with financial liabilities were as follows:

At 30 November 2008

Financial liabilities	*Less than 1 year £000*	*1-2 years £000*	*2-3 years £000*	*3-4 years £000*	*4-5 years £000*	*5+ years £000*	*Total £000*
Mortgage backed loan notes due 2042	15,334	10,657	7,242	13,530	–	–	46,763
Subordinated loan	288	288	288	288	288	4,580	6,020
	15,622	10,945	7,530	13,818	288	4,580	52,783
Gross financial liabilities	13,263	9,248	6,285	13,324	–	4,290	46,410

At 30 November 2007

Financial liabilities	*Less than 1 year £000*	*1-2 years £000*	*2-3 years £000*	*3-4 years £000*	*4-5 years £000*	*5+ years £000*	*Total £000*
Mortgage backed loan notes due 2042	32,900	22,313	12,261	6,034	5,440	–	78,948
Subordinated loan	423	423	424	424	424	5,788	7,906
	33,323	22,736	12,685	6,458	5,864	5,788	86,854
Gross financial liabilities	29,400	20,001	11,200	5,512	5,342	5,364	76,819

There is no contractual obligation to pay down the loan notes other than as set out in note 14.

The undiscounted cash flows have been estimated by applying a constant (per annum) prepayment rate to the principal balance of the mortgage loans and using the weighted average interest rate prevailing at the balance sheet date. However, it is not expected that the loans will repay at a constant rate until maturity, that all of the loans will prepay at the same rate or that there will be no defaults or delinquencies on the loans, therefore the amounts disclosed above are only estimates of the possible future cash outflows on the loan notes.

In preparing the comparative figures at 30 November 2007 actual cash flows arising from the repayment of the loan notes up to March 2009 have been used in place of the estimated constant (per annum) prepayment rate.

Notes to the financial statements

at 30 November 2008

18. Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(c) Interest rate risk

The table below summarises the interest rate risk profile of the Group's financial instruments.

At 30 November 2008

	Total	*Total non-interest bearing*	*Within 3 months*	*After 3 months but within 6 months*	*After 6 months but within 1 year*	*After 1 year but within 5 years*	*Weighted average interest rate*	*Weighted average time for which rate is fixed Years*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*%*	
Financial assets								
Mortgage loans	39,176	–	39,176	–	–	–	–	–
Cash and deposits	11,235	–	11,235	–	–	–		
Total assets	50,411	–	50,411	–	–	–		
Financial liabilities								
Mortgage backed loan notes due 2042	42,055	–	42,055	–	–	–		
Subordinated loan	4,355	–	4,355	–	–	–		
Total liabilities	46,410	–	46,410	–	–	–		

Notes to the financial statements

at 30 November 2008

18. Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(c) Interest rate risk (continued)

At 30 November 2007

	Total	*Total non-interest bearing*	*Within 3 months*	*After 3 months but within 6 months*	*After 6 months but within 1 year*	*After 1 year but within 5 years*	*Weighted average interest rate*	*Weighted average time for which rate is fixed*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*%*	*Years*
Financial assets								
Mortgage loans	60,230	–	60,230	–	–	–	–	–
Cash and deposits	20,077	–	20,077	–	–	–		
Derivative financial instruments	73	73	–	–	–	–		
Total assets	80,380	73	80,307	–	–	–		
Financial liabilities								
Mortgage backed loan notes due 2042	71,286	–	71,286	–	–	–		
Subordinated loan	5,533	–	5,533	–	–	–		
Total liabilities	76,819	–	76,819	–	–	–		

The rates of interest receivable and payable on variable rate financial instruments, with the exception of the mortgage backed loan notes, are set with reference to the London Interbank Offer Rate. The rates of interest payable on the mortgage backed loan notes are set as detailed in note 14.

The Group used interest rate caps in certain circumstances to hedge against movements in interest rates. The notional value of these caps was £nil (2007: £63,000,000) and the recognised positive fair value was £nil (2007: negative £72,641).

Notes to the financial statements

at 30 November 2008

18. Derivatives and other financial instruments (continued)

Nature and extent of risks arising from financial instruments (continued)

(d) Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	At 30 November 2008			*At 30 November 2007*		
	Book value	*Fair value*	*If fair values Increased by 1%*	*Book value*	*Fair value*	*If fair values increased by 1%*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Financial assets						
Mortgage loans	39,176	35,329	353	60,230	59,063	591
Cash and deposits	11,235	11,235	112	20,077	20,077	201
Derivative financial instruments	–	–	–	73	73	1
	50,411	46,564	465	80,380	79,213	793
Financial liabilities						
Mortgage backed loan notes due 2042	(42,055)	(32,387)	(324)	(71,286)	(69,639)	(696)
Subordinated loan	(4,355)	(4,355)	(44)	(5,533)	(5,533)	(55)
	(46,410)	(36,742)	(368)	(76,819)	(75,172)	(751)

The directors have considered the fair values of the Company's main financial instruments, which are mortgage loan receivables and non recourse loan notes.

As no liquid market exists for either the mortgage loans or non recourse loan notes, the directors have ascribed an approximate fair value based on an internal discounted cash flow model that is used to value non-securitised mortgage loan receivables. This model takes into account expected payment rates, arrears, house price movements, level of repossessions, losses and discount rates based on the most recent available information.

(f) Interest income and expense on financial instruments that are not at fair value through profit and loss

	2008	*2007*
	£000	*£000*
Interest receivable on mortgage loans	4,156	6,306
Interest expense on loan notes	(3,315)	(6,200)
Subordinated loan interest	(328)	(409)
	513	(303)

Notes to the financial statements

at 30 November 2008

19. Reconciliation of operating profit to net cash outflow from operating activities

	Year ended 30 November 2008 £000	*Year ended 30 November 2007 £000*
Operating profit/(loss)	161	(699)
Interest payable on subordinated loan	328	409
Interest payable on mortgage backed loan notes	3,315	6,200
Other interest payable	–	293
Amortisation of capitalised issue costs	89	567
Interest on mortgage loans	(4,156)	(6,306)
Other interest receivable	(735)	(1,114)
Fair value movements	73	(75)
Change in other debtors	76	146
Change in other creditors	(236)	(238)
Movement in provision for mortgage losses	41	(935)
Net cash (outflow) from operating activities	(1,044)	(1,752)

20. Analysis of net debt

	At 1 December 2007 £000	*Cash flow £000*	*Non-cash movement £000*	*At 30 November 2008 £000*
Cash in hand and at bank	20,077	(8,842)	–	11,235
Mortgage backed loan notes	(71,286)	29,231	–	(42,055)
Issue costs	267	–	(89)	178
Derivative financial instruments	73	–	(73)	–
Subordinated loan	(5,533)	1,178	–	(4,355)
Net debt carried forward	(56,402)	21,567	(162)	(34,997)

21. Deferred taxation

	2008 £000	*2007 £000*
Asset/(liability) at the start of the year	111	(29)
Deferred tax (charge)/credit during the year (note 6)	(27)	140
Asset at the end of the year	84	111

Full provision has been made for deferred tax liabilities arising as a result of Financial Reporting Standard No. 26 adjustments. Losses of £22,281 resulting in a deferred tax asset of £4,679 have not been recognised. The deferred tax asset has not been recognised due to the uncertainty surrounding the Group's future profitability.

Notes to the financial statements

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21. Deferred taxation (continued)

Deferred taxation has been recognised at 21% (2007: 20%) being the UK small companies' corporation tax rate at the balance sheet date.

	2008	*2007*
	£000	*£000*
Effect of Financial Reporting Standard No. 26 adjustment for EIR	63	105
Effect of Financial Reporting Standard No. 26 adjustment for Derivatives	–	(14)
General Provision	21	20
Total deferred tax asset recognised at 20%	–	111
Total deferred tax asset recognised at 21%	84	117

22. Capital Structure

The Company's capital is represented by the capital and reserves attributable to equity holders. The Company is not subject to externally imposed capital requirements other than the minimum share capital required by the Companies Act 1985, with which it complies. The Company manages its ordinary share capital in order that there is sufficient capital to meet the needs of the Company in its operation.

23. Parent undertaking and control

The entire issued share capital of Southern Pacific 04-A Parent Limited is held by a Trustee under a declaration of trust for charitable purposes.