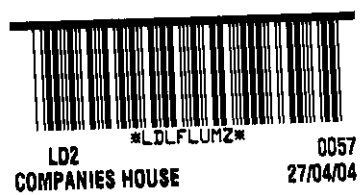


Southern Pacific Securities C plc

Directors' report and financial statements

30 November 2003

Registered number 3691880



Directors' report and financial statements

Contents

Directors and company information	1
Directors' report	2
Statement of directors' responsibilities	4
Report of the independent auditors to the members of Southern Pacific Securities C plc	5
Profit and loss account	6
Balance sheet	7
Notes	8

Directors and company information

Directors

WE Cherry
PM Hills
BD Needham

Secretary

Clifford Chance Secretaries (CCA) Limited

Registered office

125 Kensington High Street
London
W8 5PA

Bankers

Barclays Bank PLC
Cheapside Business Centre
155 Bishopsgate
London
EC2M 3XA

Solicitors

Clifford Chance
200 Aldersgate Street
London
EC1A 4JJ

Auditors

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

Directors' report

The directors present their report and the audited financial statements for the 11 month period ended 30 November 2003.

The Company's accounting reference date has been changed from 31 December to 30 November to bring it in line with Lehman Brothers Holdings Inc., the ultimate parent company.

Principal activities

The principal activity of the Company, is the investment in mortgage loans secured by first and second charges over properties within the United Kingdom.

Business review

The profit and loss account for the 11 month period to 30 November 2003 is set out on page 6. Both the level of business during the period and the financial position of the Company at the end of the period were satisfactory.

Dividend

The directors do not recommend the payment of a dividend for the period (2002: £nil).

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 suppliers 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 period end (2002: nil days).

Directors and directors' interests

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

WE Cherry (Chairman)
BD Needham
PM Hills

None of the directors who held office at the end of the period had any disclosable interest in the shares of the Company (2002: £nil).

Directors' report *(continued)*

Financial Instruments

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

The Company also enters into derivative transactions where necessary (principally interest rate swaps) to manage its interest rate risk.

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

The main risks arising from the Company's financial instruments are credit risk, interest rate risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from 2002.

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 Company in November 2001 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 Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar, where this is not possible the Company considers the use of derivative financial instruments to mitigate any residual interest rate risk.

Liquidity risks

The Company'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 Company holds a minimum cash balance to manage short term liquidity requirements.

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.



W E Cherry
Director

125 Kensington High Street
London
W8 5PA

DATE

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Southern Pacific Securities C plc

We have audited the company's financial statements for the 11 month period ended 30 November 2003 which comprise the Profit and Loss Account, Balance Sheet and the related Notes 1 to 20. These financial statements have been prepared on the basis of 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions with the company 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 United Kingdom Auditing Standards 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 November 2003 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

23 April 2004

Profit and loss account
for the period ended 30 November 2003

	<i>Note</i>	Period ended 30 November 2003 £'000	Year ended 31 December 2002 £'000
Interest receivable and similar income	2	12,695	24,546
Interest payable and similar charges	3	(10,195)	(20,937)
Net interest receivable		2,500	3,609
Other operating income	4	5,838	9,225
Total operating income		8,338	12,834
Operating expenses		(8,315)	(12,804)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	23	30
Tax on profit on ordinary activities	6	(110)	122
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION	15	(87)	152

The loss for the period was derived from continuing operations.

There were no recognised gains or losses other than the loss for the period, accordingly no statement of recognised gains and losses is given.

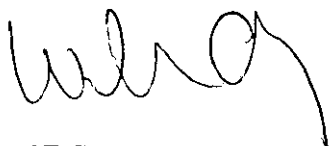
The notes on pages 8 to 18 form part of these financial statements.

Balance sheet
at 30 November 2003

	<i>Note</i>	30 November 2003 £'000	31 December 2002 £'000
Current assets			
Debtors:			
Amounts falling due after one year	10	112,384	200,107
Amounts falling due within one year	11	3,658	5,720
Cash at bank and in hand		26,970	16,574
		<hr/> 143,012	<hr/> 222,401
Creditors: amounts falling due within one year	12	(6,210)	(5,982)
Net current assets		<hr/> 136,802	<hr/> 216,419
Creditors: amounts falling due after more than one year	13	(136,722)	(216,252)
Net assets		<hr/> 80	<hr/> 167
Capital and reserves			
Called up share capital	14	13	13
Profit and loss account	15	67	154
Shareholders' funds	16	<hr/> 80	<hr/> 167

The notes on pages 8 to 18 form part of these financial statements.

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



W E Cherry
Director

Date: 22-4-04

Notes

(forming part of the financial statements)

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 accounting

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.

Mortgage loans

Mortgage loans are stated at cost 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.

Provisions

Specific provisions for losses on loans and advances to customers in arrears are made throughout the period and at the period 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).

A general provision for losses is made for the general risk of default by customers, which is inherent in a mortgage portfolio on balances excluding those in arrears and possession provided for specifically.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transaction or events that result in an obligation to pay more, or a right to pay less tax in the future, have occurred at the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the 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.

Notes (continued)

1 Accounting policies (continued)

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 acquired mortgages. Provision is made for deferred consideration within the financial statements as amounts become payable as a result of the performance of the acquired mortgages.

Interest

Receipts and payments of interest are accounted for on an accruals basis.

Redemption fee income

Redemption fees are receivable on mortgage loans when partially or fully repaid. The level of the fee is dependent on the specific product. The income is credited to the profit and loss account as received.

Sundry fee income

Borrowers may be charged fees as a result of specific information requests and where mortgage accounts fall into delinquency. This income is credited to the profit and loss account on an accruals basis.

Interest rate swaps

A series of amortising interest rate swaps were entered into, in order to manage the Company'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. Prior to the expiry of these swaps at 31 December 2002, the net interest paid or received under interest rate swaps was recorded on an accruals basis and included within interest payable within the profit and loss account.

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.4 and costs amortised in the period are included in interest payable.

Related party transactions

Under Financial Reporting Standard No.8 the Company is exempt from the requirement to disclose transactions with entities within the Southern Pacific B Limited group as all of its voting rights are controlled by Southern Pacific B Limited, whose financial statements are publicly available.

Southern Pacific Mortgage Limited retains an interest in the cashflows and profits of Southern Pacific Securities C plc. Accordingly Southern Pacific Mortgage Limited, whilst having no direct investment in the Company or its parent, is treated as a related party.

Cash flow statement

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

Turnover

The Company's turnover and trade are wholly within the UK and within a single market sector.

Notes (continued)

2 Interest receivable and similar income

	Period ended 30 November 2003 £'000	Year ended 31 December 2002 £'000
On mortgage advances	11,941	23,517
Other Interest receivable	754	1,029
	<hr/>	<hr/>
	12,695	24,546
	<hr/>	<hr/>

3 Interest payable and similar charges

	Period ended 30 November 2003 £'000	Year ended 31 December 2002 £'000
Start up loan	163	360
Other interest payable	2	737
Mortgage backed loan notes	9,293	18,947
Amortisation of capitalised initial issue costs	737	893
	<hr/>	<hr/>
	10,195	20,937
	<hr/>	<hr/>

4 Other operating income

	Period ended 30 November 2003 £'000	Year ended 31 December 2002 £'000
Redemption fees	5,014	7,760
Sundry fee income	824	1,465
	<hr/>	<hr/>
	5,838	9,225
	<hr/>	<hr/>

Notes (continued)

5 Profit on ordinary activities before taxation

	Period ended 30 November 2003 £'000	Year ended 31 December 2002 £'000
Profit on ordinary activities before taxation is stated		
<i>After charging:</i>		
Auditors' remuneration – For audit services	8	6
Amortisation of capitalised issue costs	737	893
Deferred consideration	7,908	10,857
<i>After crediting:</i>		
Provision for mortgage losses	(91)	1,079

6 Tax on profit on ordinary activities

(a) Analysis of tax credit in the period

	Period ended 30 November 2003 £'000	Year ended 31 December 2002 £'000
Current tax:		
UK corporation tax on profits of the period	93	-
Adjustments in respect of prior years	54	4
Total current tax	<u>147</u>	<u>4</u>
Deferred tax:		
Current period credit	(95)	5
Adjustments in respect of prior years	58	(131)
Total deferred tax	<u>(37)</u>	<u>(126)</u>
Tax on profit on ordinary activities	<u><u>110</u></u>	<u><u>(122)</u></u>

Notes (continued)

6 Taxation (continued)

(b) Factors affecting the tax charge in the period

The tax assessed for the period is higher than the standard rate for current corporation tax in the UK of 30% (2002: 30%). The differences are explained below:

	Period ended 30 November 2003 £'000	Year ended 31 December 2002 £'000
Profit on ordinary activities before tax	23	30
Profit on ordinary activities multiplied by the standard rate of corporation tax of 30% (2002: 30%)	7	9
Effects of:		
Short-term timing differences	95	(5)
Small companies rate	(9)	(4)
Underprovision in prior year	54	4
Current tax charge for the period	147	4

7 Information regarding directors and employees

The Company has no employees. The directors received no remuneration from the Company during the period.

8 Mortgage loans – net balances

	Mortgages £000	Mortgage loss Provision £000	Total £000
At start of period	205,162	(2,296)	202,866
Net movement in the period	(89,310)	675	(88,635)
At 30 November 2003	115,852	(1,621)	114,231

Mortgage loans of £114,231,000 (2002: £202,866,000) are held as security against the loan notes referred to in note 13.

Notes (continued)

9 Mortgage loans - unamortised premium

	30 November 2003 £'000	31 December 2002 £'000
At start of period	995	1,536
Amortisation in the period	(388)	(541)
At end of period	<u>607</u>	<u>995</u>

10 Debtors: amounts falling due after one year

	30 November 2003 £'000	31 December 2002 £'000
Mortgage loans:		
Net balances (note 9)	111,980	199,410
Unamortised premium on acquisition	404	697
	<u>112,384</u>	<u>200,107</u>

11 Debtors: amounts falling due within one year

	30 November 2003 £'000	31 December 2002 £'000
Mortgage loans:		
Net balances (note 9)	2,251	3,456
Unamortised premium on acquisition	203	298
Prepayments and accrued income	1,034	1,832
Deferred Taxation	163	126
Other debtors	7	8
	<u>3,658</u>	<u>5,720</u>

Notes (continued)

12 Creditors: amounts falling due within one year

	30 November 2003 £'000	31 December 2002 £'000
Amounts owed to related parties	3,381	2,791
Corporation tax	148	4
Deferred consideration	1,224	2,516
Accruals and deferred income	1,457	671
	<u>6,210</u>	<u>5,982</u>

13 Creditors: amounts falling due after more than one year

	30 November 2003 £'000	31 December 2002 £'000
Mortgage backed loan notes due 2039 – Class A	82,077	162,344
Mortgage backed loan notes due 2039 – Class B	20,120	20,120
Mortgage backed loan notes due 2039 – Class M	28,350	28,350
	<u>130,547</u>	<u>210,814</u>
Less: Issue costs	(1,157)	(1,894)
Start up loan	7,332	7,332
	<u>136,722</u>	<u>216,252</u>

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

The mortgage backed floating rate notes due 2039 are secured over a portfolio of mortgage loans secured by first charges over residential properties in the United Kingdom.

The mortgages were purchased from Southern Pacific Mortgages Limited. The mortgages are administered by Southern Pacific Mortgage Limited on behalf of Southern Pacific Securities C plc.

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 mortgages. If not otherwise redeemed or purchase and cancelled, the notes will be redeemed at their principal amount outstanding on the interest payment date falling in September 2039. Interest on the notes is payable monthly in arrears at the following rates for three month sterling deposits until the interest payment date falling in September 2008 and thereafter at the following rates:

Notes (continued)

	Up to September 2008	After September 2008
Class A with Class A ordinary coupons	LIBOR + 0.44%	LIBOR + 0.88%
Class A with detachable coupons	2.00%	2.00%
Class M	LIBOR + 1.40%	LIBOR + 2.80%
Class B	LIBOR + 2.75%	LIBOR + 3.75%

The start up loan is repayable to Southern Pacific Mortgage Limited on or before 2039. Interest is payable at a rate of 0.75% above the London Interbank Offered Rate for three month sterling deposits.

14 Share Capital

	30 November 2003 £	31 December 2002 £
Called up share capital		
<i>Authorised</i>		
Ordinary shares of £1 each	50,000	50,000
<i>Allotted and called up</i>		
Ordinary shares of £1 each		
2 shares 100% called and fully paid	2	2
49,998 shares 25% called and fully paid	12,500	12,500
	<u>12,502</u>	<u>12,502</u>

15 Profit and loss account

	30 November 2003 £'000	31 December 2002 £'000
Retained profit brought forward	154	2
Profit/(loss) for the period	(87)	152
Retained profit carried forward	<u>67</u>	<u>154</u>

16 Reconciliation of movement in shareholders' funds

	30 November 2003 £'000	31 December 2002 £'000
Retained profit/(loss) for the period	(87)	152
Net increase/(decrease) in shareholders' funds	<u>(87)</u>	<u>152</u>
Opening shareholders' funds	167	15
Closing shareholders' funds	<u>80</u>	<u>167</u>

Notes (continued)

17 Derivatives and other financial instruments

As explained on page 3, the Company uses financial instruments in its normal course of business. The following numerical analysis gives an indication of the significance of these instruments to the Company.

a. Interest rate risk

The table below summarises the interest rate profile of the Company's financial instruments after taking into account the effect of any interest rate derivatives used to manage the risk associated with these instruments. The analysis excludes short term debtors and creditors. All financial instruments are denominated in sterling.

	30 November 2003			
	Floating	Fixed	Non-interest bearing	Total
	£'000	£'000	£'000	£'000
Financial assets:				
Mortgages	115,852	-	-	115,852
Cash at bank and in hand	26,970	-	-	26,970
	<u>142,822</u>	<u>-</u>	<u>-</u>	<u>142,822</u>
Financial liabilities:				
Mortgage backed loan notes due 2039	(130,547)	-	-	(130,547)
Start up loan	(7,332)	-	-	(7,332)
	<u>(137,879)</u>	<u>-</u>	<u>-</u>	<u>(137,879)</u>

	31 December 2002			
	Floating	Fixed	Non-interest bearing	Total
	£'000	£'000	£'000	£'000
Financial assets:				
Mortgages	205,162	-	-	205,162
Cash at bank and in hand	16,574	-	-	16,574
	<u>221,736</u>	<u>-</u>	<u>-</u>	<u>221,736</u>
Financial liabilities:				
Mortgage backed loan notes due 2039	(210,814)	-	-	(210,814)
Start up loan	(7,332)	-	-	(7,332)
	<u>(218,146)</u>	<u>-</u>	<u>-</u>	<u>(218,146)</u>

The rates of interest receivable and payable on variable rate financial instruments are set with reference to the London Interbank Offered Rate.

Notes (continued)

b. Fair value of financial instruments

	Book value 2003 £'000	Fair value 2003 £'000	Book value 2002 £'000	Fair value 2002 £'000
On balance sheet				
Mortgage loans	115,852	115,852	205,162	205,162
Cash and deposits	26,970	26,970	16,574	16,574
Mortgage backed loan notes due 2039	(130,547)	(130,547)	(210,814)	(210,814)
Start up loan	(7,332)	(7,332)	(7,332)	(7,332)

The Company uses interest rate swaps in certain circumstances to hedge against movements in interest rates. At 30 November 2003 the interest rate swap previously held had expired.

The detachable A coupon notes have no value in the balance sheet but a notional value of £10,070,000 was ascribed to these notes at issue.

18 Deferred taxation

	30 November 2003 £'000	31 December 2002 £'000
Other short term timing differences	163	126
	<hr/>	<hr/>
	163	126
	<hr/>	<hr/>
Provision at start of period	126	-
Deferred tax credit in the profit and loss account (note 6)	37	126
	<hr/>	<hr/>
Provision at the end of period	163	126
	<hr/>	<hr/>

Notes (continued)

19 Related party disclosures

During the period, the Company has been charged the following amounts of interest and administration fees by Southern Pacific Mortgage Limited.

	Period ended 30 November 2003 £'000	Year ended 31 December 2002 £'000
A note detachable coupons	2,182	4,917
Start up loan	163	360
Service Bureau & Cash/bond administration fees	384	736

The interest accrued but unpaid at 30 November 2003 on the A note detachable coupons was £134,893 (2002: £205,000) and the accrued interest on the start up loan was £21,326 (2002: £112,680). Service bureau fees accrued but unpaid at 30 November 2003 were £26,897 (2002: £5,000) and the cash/bond administration fees were £1,076 (2002: £2,667).

The amount outstanding at the period end of the start up loan was £7,332,000 (2002: £7,332,000).

20 Parent undertaking and control

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

The entire issued share capital of Southern Pacific B Limited is held by a Trustee under the terms of a trust primarily for the benefit of the creditors of the Company or, if none, for the benefit of the holders of notes issued by Southern Pacific Securities C plc, and ultimately for charitable purposes.

The largest group in which the results of the Company are consolidated is that headed by Lehman Brothers Holdings Inc., incorporated in the United States of America. The smallest group in which they are consolidated is that headed by Southern Pacific B Limited, registered in England and Wales. The consolidated accounts of these groups are available from 745 Seventh Avenue, New York, USA and 125 Kensington High Street, London, W8 5PA, United Kingdom respectively.