

Southern Pacific Securities H plc

Report and Financial Statements

30 November 2007

Registered No 04846234

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COMPANIES HOUSE

Southern Pacific Securities H plc

Registered No 04846234

Directors

Capita Trust Company Limited
Capita Trust Corporate Services Limited

Secretary

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

Auditors

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

Bankers

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

Solicitors

Clifford Chance
10 Upper Bank Street
London
E14 5JJ

Registered Office

First Floor
No 6 Broadgate
London
EC2M 2QS

Directors' report

The directors present their report and the audited financial statements for the year ended 30 November 2007

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 year ended 30 November 2007 is set out on page 8. Both the level of business during the year and the financial position of the company at the year end were satisfactory.

As required by Financial Reporting Standard No. 26, the result for the year includes a fair value gain on derivative financial instruments of £340,843 (2006: £14,819,175).

At the year end the mortgage balance, after Financial Reporting Standard No. 26 adjustments, was £36,273,342 (2006: £75,779,010). At the December 2007 Interest Payment Date following the year end, the company held the following mortgage loans, excluding any Financial Reporting Standard No. 26 adjustments:

	<i>Principal Balance £</i>	<i>Number of loans</i>
First mortgages	27,098,970	401
Second mortgages	3,990,556	227
Total	31,089,526	628

These mortgages provide security against loan notes in issue totalling £31,087,023 as at December 2007 Interest Payment Date. The directors consider the mortgage loans to be adequate collateral against the loan notes in issue.

The mortgage loans generated a weighted average margin over funding costs of 4.30% during the year. The weighted average cost of funds for the year was 5.79%. The directors consider there to be adequate arrangements in place to hedge against future movements in cost of funds.

The mortgage loans exhibited the following quarter arrears profile:

	<i>Q1 %</i>	<i>Q2 %</i>	<i>Q3 %</i>	<i>Q4 %</i>
Delinquencies days – (excluding reposessions)				
Current	64.94	66.27	60.32	58.04
> 30 <= 60	12.43	8.84	11.38	12.95
> 60 <= 90	7.99	8.44	7.73	9.37
> 90 <= 120	3.97	5.88	6.19	6.69
> 120	10.67	10.57	14.38	12.95
Total	100.00	100.00	100.00	100.00

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.

Directors' report

Business review (continued)

The performance of the mortgage loans during the year to 30 November 2007 enabled deferred consideration of £2,948,885 (2006 £4,806,105) to be paid to the current holder of the rights for the residual cash flows of the securitisation

Going concern

The Company's existing transaction were terminated on 10 March 2008 with the mortgage-backed loan notes being fully redeemed, in accordance with the arrangements established when the Company was formed in 2003. This was facilitated by Southern Pacific Mortgage Limited purchasing the outstanding mortgages at a price equal to par plus accrued interest. In addition, a premium was paid by Southern Pacific Mortgage Limited, which will be sufficient to cover costs incurred by the Company in redeeming the notes, settling creditor balances and the winding up (if applicable) of the Company.

The directors have taken a view that, at the time of approving the financial statements, the Company has adequate resources to continue in existence for the foreseeable future.

Consequently, the directors have prepared the financial statements on a going concern basis.

Fair value

Note 17 discloses the fair values of the Company's mortgage asset receivables and non recourse loan notes. The directors note that as at 30 November 2007 the respective fair values of the mortgage asset receivables 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 US sub prime mortgage sector and the decline in market demand for mortgage backed securities.

The fair values are indicative of the amount, based on calibrations to observed secondary traded UK prime mortgage assets, for which the mortgage assets might be sold, or the loan notes settled, between willing parties in an arm's length transaction although in reality no liquid secondary market exists for either the mortgage asset receivables or the non recourse loan notes.

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.

Dividend

The directors do not recommend the payment of a dividend for the year (2006 £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 30 November 2007 (2006 nil days).

Directors

The directors who held office during the year were as follows

W C Bilsborough (resigned 27 March 2008)

Capita Trust Company Limited

Capita Trust Corporate Services Limited

Directors' report

Principal risks and uncertainties

Financial instrument risks

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 and currency swaps) to manage its interest rate risk and currency risk

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

The main risks arising from the Company's financial instruments are credit risk, interest rate risk, currency 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 Company during the year 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

Foreign exchange risk

Foreign exchange risk exists where the loan notes are denominated in a currency which is different to the underlying sterling mortgage loans. The Company minimises its exposure to foreign currency risk by ensuring that the currency 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 foreign exchange 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

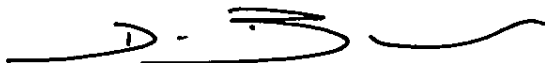
Disclosure of information to the auditors

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

Date

30 SEP 2008

Capita Trust Corporate Services Limited
(Director)

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 United Kingdom law and United Kingdom Generally Accepted Accounting Practice

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 of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and 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 company 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 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 H plc

We have audited the company's financial statements for the year ended 30 November 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out in note 1.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Independent auditors' report

to the members of Southern Pacific Securities H plc (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 November 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP

Registered Auditor

London

Date *30 Sept 2008*

Profit and loss account

for the year ended 30 November 2007

	Notes	2007 £000	2006 £000 <i>Restated</i>
Interest receivable and similar income	2	8,704	14,856
Interest payable and similar charges	3	(4,031)	(9,955)
Net interest receivable		<u>4,673</u>	<u>4,901</u>
Net fair value gains on derivatives		341	14,819
Other operating income	4	773	3,948
Unrealised exchange loss on restatement of loan liabilities		(259)	(72)
Total operating income		<u>5,528</u>	<u>23,596</u>
Operating expenses		(2,310)	(4,772)
Profit on ordinary activities before taxation	5	<u>3,218</u>	<u>18,824</u>
Tax on profit on ordinary activities	6	(649)	(3,630)
Profit on ordinary activities after taxation	15	<u><u>2,569</u></u>	<u><u>15,194</u></u>

The profit for the year was derived from continuing operations

The notes on pages 11 to 22 form part of these financial statements

Statement of total recognised gains and losses

for the year ended 30 November 2007

	2007 £000	2006 £000
<i>Profit for the year</i>	2,569	15,194
Prior year adjustment	3,456	–
<i>Total gains and losses recognised since last financial statements</i>	<u>6,025</u>	<u>15,194</u>

The notes on pages 11 to 22 form part of these financial statements

Balance sheet

at 30 November 2007

	Notes	2007 £000	2006 £000 <i>Restated</i>
Current assets			
Debtors			
Amounts falling due after one year	10	33,936	72,751
Amounts falling due within one year	11	2,100	2,420
Cash at bank and in hand		10,892	26,526
		<u>46,928</u>	<u>101,697</u>
Creditors amounts falling due within one year	12	(6,821)	(8,867)
Net current assets		<u>40,107</u>	<u>92,830</u>
Creditors amounts falling due after one year	13	(36,992)	(92,284)
Net assets		<u>3,115</u>	<u>546</u>
Capital and reserves			
Called up share capital	14	13	13
Profit and loss account	15	3,102	533
Shareholders' funds	16	<u>3,115</u>	<u>546</u>

The notes on pages 11 to 22 form part of these financial statements

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



Director

30 SEP 2008

Capita Trust Corporate Services Limited
(Director)

Notes to the financial statements

at 30 November 2007

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 taking into account the fact that the mortgage-backed loan notes will be redeemed and the underlying mortgage assets sold to Southern Pacific Mortgage Limited, and as such the Company will no longer be engaging in its principal activities. Certain balances in the 2006 comparatives have been reclassified to be consistent with the current year presentation

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

Provisions

Specific provisions for losses on loans and advances to customers in arrears 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)

A provision for losses is made for the collective 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 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 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 a non-discounted 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

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

Deferred consideration

Deferred consideration represents further amounts payable to Teal Funding No 1 Limited based on the acquisition of mortgages from Southern Pacific Mortgage Limited. The payment of these amounts is conditional on the performance of the acquired mortgages.

Under the terms of the securitisation the Company 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, as deferred consideration expense or income.

Profits in excess of 0.01 per cent accrue to the current holder of the rights to the residual cash flows of the securitisation. Accordingly a creditor for amounts payable to the current holder of the rights to the residual cash flows of the securitisation for this residual interest has been recognised at year end, however where a debtor and income has been recognised, it is expected that the Company will recoup the losses towards the end of the deal.

Derivatives

The Company uses derivative financial instruments to hedge its exposure to interest rate and currency risk arising from operational, financing and investment activities. The Company 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 cap and currency swaps is the estimated amount that the Company would receive or pay to terminate the swaps at the balance sheet date.

Interest rate swaps

A series of amortising interest rate swaps have been 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.

Currency swaps

A series of currency swaps have been entered into in order to manage the Company's currency rate exposure in relation to non-sterling denominated Loan Notes. The derivative contracts match the expected profile of the run-off of the non-sterling denominated Loan Notes.

Foreign currencies

Mortgage-backed floating rate notes included in financial liabilities, denominated in foreign currencies at the balance sheet date, are reported at the rates of exchange prevailing at the reporting date. Any exchange differences arising in the period on the settlement or retranslation of foreign currency liabilities are included in 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 26 and costs amortised in the year are included in interest payable.

Notes to the financial statements

at 30 November 2007

1. Accounting policies (continued)

Related party transactions

The Company has taken advantage of the exemption conferred by paragraph 3(d) of Financial Reporting Standard No 8, not to disclose transactions with related parties since the Company is 100% owned by Southern Pacific H Parent Limited and is included in its consolidated financial statements, which are publicly available

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 and therefore no segmental analysis has been presented

Prior year adjustment

The prior year adjustment is required to be made to recognise the correct treatment of deferred tax relating to Financial Reporting Standards No 26 adjustments as at 1 December 2005 of the Company. The adjustment increases retained profits by £3,456,123 and decrease the deferred tax liability by £3,456,123

2. Interest receivable and similar income

	2007 £000	2006 £000
On mortgage loans	8,051	14,116
Other interest	653	740
	<u>8,704</u>	<u>14,856</u>

3. Interest payable and similar charges

	2007 £000	2006 £000
Start up loan	—	137
Other interest payable	155	229
Mortgage backed loan notes	3,352	9,178
Amortisation of capitalised issue costs	524	411
	<u>4,031</u>	<u>9,955</u>

4. Other operating income

	2007 £000	2006 £000
Redemption fees	510	2,132
Sundry fee income	263	1,816
	<u>773</u>	<u>3,948</u>

Notes to the financial statements

at 30 November 2007

5. Profit on ordinary activities before taxation

	2007 £000	2006 £000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Auditors' remuneration – For audit services	10	9
Provision for mortgage losses	(814)	(197)
Deferred consideration	1,678	2,430
Bad debts incurred on mortgage loans	489	687
Amortisation of premium	209	208
	<u> </u>	<u> </u>

6. Tax on profit on ordinary activities

(a) Analysis of tax charge in the year

	2007 £000	2006 £000
Current tax		
UK corporation tax on profits in the year	–	–
Adjustment in respect of prior years	–	55
Total current tax (note 6(b))	<u> </u>	<u> </u>
	–	55
Deferred tax		
Origination and reversal of timing differences	643	3,575
Effect of rate change on opening liability	6	–
Total deferred tax (note 18)	<u> </u>	<u> </u>
	649	3,575
Tax on profit on ordinary activities	<u> </u>	<u> </u>
	649	3,630

(b) Factors affecting the tax charge in the year

The tax assessed for the year is higher than the UK corporation rate applicable to small companies of 20% (2006 19%). The differences are explained below

	2007 £000	2006 £000
Profit on ordinary activities before tax	3,218	18,824
Profit on ordinary activities multiplied by the standard rate of corporation tax of 20% (2006 19%)	643	3,576
Effects of		
Other short-term timing differences	(642)	(3,575)
Adjustment to tax change in respect of prior years	–	55
Utilisation of tax losses and other deductions	(1)	(1)
Current tax charge for the period	<u> </u>	<u> </u>
	–	55

Notes to the financial statements

at 30 November 2007

7. Information regarding directors and employees

The Company has no employees (2006 none) The directors received no remuneration from the Company during the year (2006 £nil)

8. Mortgage loans – net balances

	<i>Mortgage £000</i>	<i>Mortgage loss provision £000</i>	<i>Total £000</i>
At 30 November 2006	75,779	(1,580)	74,199
Net movement in the year	39,504	814	(38,690)
At 30 November 2007	36,275	(766)	35,509

The current mortgage loans in the pool have loan periods of between 3 to 367 months remaining with current interest rates ranging from 6.99% to 18.99% per annum

Net mortgage loans of £35,508,169 (2006 £74,199,000) are held as security against the loan notes referred to in note 13

9. Mortgage loans - unamortised premium

	<i>2007 £000</i>	<i>2006 £000</i>
Premium on acquisition	213	421
Amortisation in the year	(209)	(208)
At end of year	4	213

10. Debtors: amounts falling due after one year

	<i>2007 £000</i>	<i>2006 £000</i>
Mortgage loans		
Net balances (note 8)	33,936	72,624
Unamortised premium (note 9)	–	127
	33,936	72,751

Notes to the financial statements

at 30 November 2007

11 Debtors: amounts falling due within one year

	2007	2006
	£000	£000
Mortgage loans		
Net balances (note 8)	1,573	1,575
Unamortised premium (note 9)	4	86
Prepayments and accrued income	369	757
Derivative financial instruments	154	–
Other debtors	–	2
	<u>2,100</u>	<u>2,420</u>

12. Creditors: amounts falling due within one year

	2007	2006
	£000	£000
		<i>Restated</i>
Amounts owed to group undertakings	432	1,100
Deferred consideration	5,138	6,409
Accruals and deferred income	483	1,238
Other creditors	–	1
Deferred taxation (note 18)	768	119
	<u>6,821</u>	<u>8,867</u>

13. Creditors: amounts falling due after one year

	2007	2006
	£000	£000
GBP Denominated Mortgage backed loan notes due 2041 – Class A2 (with Detachable Coupon)	30,699	77,204
EUR Denominated Mortgage backed loan notes due 2041 – Class M1	3,180	7,540
GBP Denominated Mortgage backed loan notes due 2041 – Class M2	2,153	5,415
GBP Denominated Mortgage backed loan notes due 2041 – Class B	991	2,493
	<u>37,023</u>	<u>92,652</u>
Less: Issue costs	(31)	(555)
Derivative financial instruments	–	187
	<u>36,992</u>	<u>92,284</u>

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

The mortgage backed floating rate notes due 2041 are secured over a portfolio of mortgage loans secured by first and second charges over residential properties in the United Kingdom

The mortgages were purchased from Southern Pacific Mortgage Limited. The mortgages are administered by Capstone Mortgage Services Limited on behalf of Southern Pacific Securities H plc

Notes to the financial statements

at 30 November 2007

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

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 purchased and cancelled, the notes will be redeemed at their principal amount outstanding on the interest payment date falling in September 2041.

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

Class A2	Sterling LIBOR + 0.36%
Class A2 with Detachable Coupons at the rate specified below	
Class M1	EURIBOR + 2.90%
Class M2	Sterling LIBOR + 3.25%
Class B	Sterling LIBOR + 3.25%

The Detachable A2 Coupon Rate has been calculated in accordance with the term on the offering circular.

"Detachable A2 Coupon Rate" means on any Interest Determination Date the rate (expressed per cent, per annum) which is the product of the following

$$D\% \times \frac{(A1 + A2)}{A2}$$

Where

D% means, on each of the fifth to the twelfth Interest Determination Dates, the rate of 2.85% (in respect of the fifth to the twelfth Interest Periods inclusive), and 0% at all other times,

A1 means the aggregate Sterling Equivalent Principal Amount Outstanding (as defined in Condition 6) in respect of the A1 Notes, and

A2 means the aggregate Principal Amount Outstanding in respect of the A2 Notes,

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)

14. Called up share capital

	2007 £000	2006 £000
Authorised		
Ordinary shares of £1 each	50	50
Allotted and called up		
2 shares 100% called and fully paid	—	—
49,998 shares 25% called and fully paid	13	13
	<u>13</u>	<u>13</u>

Notes to the financial statements

at 30 November 2007

15. Profit and loss account

	2007 £000	2006 £000 <i>Restated</i>
Retained profit/(loss) brought forward	533	(18,117)
Profit for the year	2,569	15,194
Retained loss carried forward	3,102	(2,923)
Opening adjustment for Deferred taxation on adoption of Financial Reporting Standard No 26	–	3,456
Retained profit carried forward (adjusted)	3,102	533

16 Reconciliation of movement in shareholders' funds

	2007 £000	2006 £000 <i>Restated</i>
Retained profit for the year	2,569	15,194
Net increase in shareholders' funds	2,569	15,194
Opening shareholders' funds	546	(18,104)
Closing shareholders' funds	3,115	(2,910)
Opening adjustment for Deferred taxation on adoption of Financial Reporting Standard No 26	–	3,456
Closing shareholders' funds (adjusted)	3,115	546

17. Derivatives and other financial instruments

As explained on page 4 the Company uses financial instruments in its normal course of business. The following analysis gives an indication of the significance of these instruments to the Company

(a) Interest rate risk profile of financial liabilities as at 30 November

	Total £000	Total Variable rate £000	Total fixed rate £000	Weighted average interest rate %	Weighted average time for which rate is fixed Years
2007					
Interest rate profile	37,023	37,023	–	–	–
2006					
Interest rate profile	92,839	92,839	–	–	–

Notes to the financial statements

at 30 November 2007

17 Derivatives and other financial instruments (continued)

(b) Interest rate risk profile of financial assets as at 30 November

	<i>Total</i>	<i>Total</i>	<i>Total</i>	<i>Weighted</i>	<i>Weighted</i>
	<i>Total</i>	<i>Variable</i>	<i>fixed</i>	<i>average</i>	<i>average</i>
	<i>£000</i>	<i>rate</i>	<i>rate</i>	<i>interest</i>	<i>time for</i>
		<i>£000</i>	<i>£000</i>	<i>rate</i>	<i>which rate</i>
				<i>%</i>	<i>is fixed</i>
					<i>Years</i>
<i>2007</i>					
Interest rate profile	48,321	48,321	—	—	—
<i>2006</i>					
Interest rate profile	102,305	102,305	—	—	—

The company also has certain financial instruments included within debtors (notes 10 and 11) and creditors (notes 12 and 13) which are not subject to interest rate risk as they bear no interest

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 13

(c) Foreign currency risk

With the exception of the Mortgage Backed Loan Notes, all financial instruments are denominated in sterling. The Mortgage Backed Loan Notes were issued in the following tranches

GBP	Denominated Mortgage backed loan notes due 2041 – Class A2	(Notional GBP 105,040,000)
EUR	Denominated Mortgage backed loan notes due 2041 – Class M1	(Notional EUR 14,600,000)
GBP	Denominated Mortgage backed loan notes due 2041 – Class M2	(Notional GBP 7,060,000)
GBP	Denominated Mortgage backed loan notes due 2041 – Class B	(Notional GBP 3,250,000)

A series of currency swaps have been entered into, in order to manage the Company's currency rate exposure in relation to non-sterling denominated Loan Notes

(d) Fair value of financial instruments

	<i>Book</i>	<i>Fair</i>	<i>Book</i>	<i>Fair</i>
	<i>value</i>	<i>value</i>	<i>value</i>	<i>value</i>
	<i>2007</i>	<i>2007</i>	<i>2006</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
On balance sheet				
Mortgage loans	36,275	30,456	75,779	75,779
Cash and deposits	10,892	10,892	26,526	26,526
Mortgage backed loan notes due 2028 and 2041	(37,023)	(35,841)	(92,652)	(92,652)
Derivative financial instruments	154	154	(187)	(187)

Notes to the financial statements

at 30 November 2007

17. Derivatives and other financial instruments (continued)

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

As no liquid secondary market exists for either the mortgage loan receivables or non recourse loan notes, the directors have ascribed an approximate fair value based on an internal model that is used to value non-securitised mortgage loan receivables

In previous years the directors have considered that the carrying amount of the mortgage loan receivables measured at amortised cost using the effective interest rate less any impairment, and limited recourse loan notes approximate to their fair values

The Company uses foreign currency swaps in certain circumstances to hedge against any currency exposure rates. At 30 November 2007 the notional value of the swaps held was £216,235,078 (2006 £188,775,188) and the positive fair value was £111,175 (2006 (£187,135))

The Company uses interest rate caps in certain circumstances to hedge against movement in interest rates. At 30 November 2007 the notional value of the caps held was £35,750,000 (2006 £35,750,000) and the recognised positive fair value was £42,834 (2006 £299)

The detachable A2 coupon notes have no value in the balance sheet but a notional value of £105,040,000 was ascribed to these notes at issue

18. Deferred taxation

	2007 £000	2006 £000 <i>Restated</i>
Liabilities at start of year	(119)	–
Deferred tax charge in the profit and loss account (note 6)	(649)	(3,575)
Liability at the end of year	<u>(768)</u>	<u>(3,575)</u>
Opening adjustment for Deferred taxation on adoption of Financial Reporting Standard No. 26	–	3,456
Liability at end of year (adjusted)	<u>(768)</u>	<u>(119)</u>

Full provision has been made for deferred tax liabilities arising as a result of Financial Reporting Standard No. 26 adjustments. Losses of £172,288 (2006 £177,733) resulting in a deferred tax asset of £34,458 (2006 £33,769) has not been recognised

Deferred taxation has been recognised at 20% (2006 19%) being the UK small companies corporation tax rate at the balance sheet date

Notes to the financial statements

at 30 November 2007

18. Deferred taxation (continued)

As of 1 April 2008 the UK corporation tax rate increased to 21%. The impact of the rate change on the deferred tax liability expected to reverse in greater than one year would be an increase of £38,392

	2007 £000	2006 £000
Effect of FRS 26 adjustment for EIR	(763)	(773)
Effect of FRS 26 adjustment for Derivatives	(5)	(2,802)
Total deferred tax liability recognised at 19%	—	(3,575)
Total deferred tax liability recognised at 20%	(768)	(3,763)
Total deferred tax liability recognised at 21%	(806)	—
Difference	(38)	(188)

19. Parent undertaking and control

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

The entire issued share capital of Southern Pacific H Parent 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 H plc, and ultimately for charitable purposes