

Company No
2184859

FIRST DEBENTURE FINANCE PLC
Report and Financial Statements
for the year ended 30th September 2011

TUESDAY



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31/01/2012
COMPANIES HOUSE

FIRST DEBENTURE FINANCE PLC

REPORT OF THE DIRECTORS

for the year ended 30th September 2011

The directors have pleasure in submitting their report and the audited financial statements for the year ended 30th September 2011

BUSINESS REVIEW

Principal Activity

First Debenture Finance PLC was formed in 1987 as a vehicle to raise money from the public by the issue of £80 million 11 125% Severally Guaranteed Debenture Stock 2018. This Debenture Stock was severally guaranteed by four investment trusts managed by RCM (UK) Ltd (RCM) in accordance with the terms of the Debenture Stock Trust Deed.

The proceeds were applied in subscribing for bonds and notes issued by four investment trusts under the management of RCM and in investing in certificates of deposit and fixed rate bonds issued by Halifax plc, out of which the Company services the debenture. The bonds and notes issued by the investment trusts provide for interest on the initial principal amounts to be paid during the first ten years at stepped rates rising to rates in the eleventh year which will continue for the remainder of the life of the bonds and notes. Further adjustments to the amounts of interest payable may be made on the occurrence of certain specified events.

On 20th March 2002 the directors of Charter European Trust plc (Charter) issued proposals to reconstruct Charter. These proposals were approved and resulted in Charter being placed in members' voluntary liquidation on 25th April 2002, involving repayment of its notes and bonds issued by Charter to the Company. Consequently the Company repaid £23.4m of the £80m nominal value of the Debenture Stock in issue, together with an appropriate premium to reflect its market value at that time. This premium, amounting to £10.4m, and the £23.4m principal was funded out of the proceeds received from Charter on the repayment of the notes and bonds.

On 30th September 2002 Lloyds TSB Group plc disposed of the beneficial interest of its shares in the Company by sale contract and declaration that it held the legal title on trust for the purchasers pending its transfer. On 21st November 2002 legal ownership of the A and C shares held by Lloyds TSB Group plc was transferred to the three remaining investment trusts.

In March 2004 the directors of Allianz Dresdner Smaller Companies Investment Trust plc (Smaller) informed the Company of proposals to repay their share of the debt. These proposals were subsequently approved and resulted in Smaller being placed in members' voluntary liquidation on 23rd April 2004, involving repayment of the notes and bonds issued by Smaller to the Company. Consequently the Company repaid £4.4m of the remaining £56.6m nominal value of the Debenture Stock in issue, together with a premium of £2.0m to reflect its market value at that time. Both the £4.4m principal and the £2.0m premium were funded out of the proceeds received from Smaller on repayment of its notes and bonds.

On 10th March 2011 the legal ownership of the 'A', 'B', 'C' and 'D' shares held by Smaller was transferred to the two remaining investment trusts.

The directors do not currently envisage any further changes to the business activities of the Company.

Share Capital

Details of the Company's share capital are set out in Note 11 and Note 12. There have been no changes in the year under review.

Principal Risks

The principal risks faced by the Company fall into the following categories:

Credit risk - the risk that funds are not received from the borrowers of the Loans, in the event of the assets of any borrower being less than the amount required to repay its borrowings, there is a risk of default by that borrower. The borrowers have guaranteed their proportionate share of the repayment required by the Company to repay its principal and interest on the £52.2 million of 11 125% Severally Guaranteed Debenture Stock 2018. There are floating charges on each of the borrower's present and future assets and the borrowers have also agreed to meet their proportionate share of any expenses incurred by the Company, including any tax liability which may accrue to the Company generally or as a result of the redemption or earlier transfer of the loan notes and bonds held by the Company, as set out in Notes 10(i) to the financial statements.

Legal and regulatory risk - the risk that applicable provisions of Company Law and Listing Rules are not complied with. The Company mitigates this risk by relying on the service of its company secretary and professional advisers to ensure appropriate compliance.

Further details of financial risk management policies and procedures are set out in note 15.

Key Performance Indicators

Due to the limited nature of the Company's activities, the Board does not consider it necessary to assess the performance of its activities using key performance indicators.

Future Developments

The Company does not have, and does not expect to have, any other business interests, and the current activities of the Company are expected to continue for the foreseeable future.

GOING CONCERN

After considering the Principal Risks noted above, including the guarantees given by the Company's borrowers in respect of the 11 125% Severally Guaranteed Debenture Stock 2018, the directors have reasonable expectations that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Please refer to Note 1 (b) for more details.

FIRST DEBENTURE FINANCE PLC
REPORT OF THE DIRECTORS continued
for the year ended 30th September 2011

POST BALANCE SHEET EVENTS

There have been no significant events after the balance sheet date

RESULTS AND DIVIDENDS

The results of the Company for the year are set out in detail on page 6. A profit of £41,150 has been credited to reserves (2010 - profit £29,361). The directors do not recommend the payment of a dividend (2010 - £nil).

DIRECTORS

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

B J Doran
M D Hooper
I E Barlow
S R T White
L J Clark

Simon White retired as a Director on 31 August 2011 and Lynn Clark was appointed as a Director on the same date.

None of the directors had during the year, directly or indirectly, a material beneficial interest in any contract to which the Company was a party and which is or was significant in relation to the Company's business.

Directors do not have service contracts and hold office in accordance with the provisions of the articles of association of the Company.

There were no employees of the Company during the year (2010 - none).

DIRECTORS' INTERESTS

None of the directors had any interest in the share capital of the Company at any time during the year or between the end of the year and the date of this report.

DONATIONS AND SUBSCRIPTIONS

No donations or subscriptions of a political or charitable nature were made during the year (2010 - £nil).

SUBSTANTIAL INTERESTS

The Company has been advised of the following holdings representing 3% or more of the issued share capital carrying voting rights to vote at general meetings of the Company on 30 January 2012:

The Brunner Investment Trust PLC ('Brunner')	60 (or 50%) A shares	60 (or 50%) B shares
The Merchants Trust PLC ('Merchants')	60 (or 50%) A shares	60 (or 50%) B shares

CORPORATE GOVERNANCE

The Company has Debenture Stock listed on the London Stock Exchange which is a specialist debt security as determined by the London Stock Exchange at the time the debt was listed. The Board does not therefore have to give a statement of compliance with the governance principles contained in the Combined Code on Corporate Governance.

The Board has overall responsibility for the company's internal controls. The Board aims to maintain full and effective control over appropriate strategic, financial, operational and compliance issues.

SUPPLIER PAYMENT POLICY

It is the Company's financial payment policy for the forthcoming financial year to get the best terms for all business and therefore there is no consistent policy as to the terms used. In general the Company agrees with its suppliers terms at which business will take place and it is our policy to abide by these terms. The Company had no trade creditors at the year end (2010 - £nil).

FIRST DEBENTURE FINANCE PLC

REPORT OF THE DIRECTORS continued
for the year ended 30th September 2011

INDEPENDENT AUDITOR

Each of the directors at the date of approval of this report confirms that

- a) so far as the director is aware there is no relevant audit information of which the Company's auditor is unaware and
- b) the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditor. In accordance with the provisions of S487 of the Companies Act 2006 a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors and signed on its behalf by



P W I Ingram
Company Secretary

30th January 2012

FIRST DEBENTURE FINANCE PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with the applicable laws and regulations

Company law requires the directors to prepare such financial statements for each financial year. Under Company law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and Applicable Law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period in compliance with UK GAAP and the Companies Act 2006. In preparing those financial statements, the directors are required to

select suitable accounting policies applied consistently

- make judgements and estimates that are reasonable and prudent

state whether the applicable UK accounting standards have been followed, and

- prepare financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company transactions and 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 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

FIRST DEBENTURE FINANCE PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FIRST DEBENTURE FINANCE PLC

We have audited the financial statements of First Debenture Finance plc for the year ended 30th September 2011 which comprise the Profit and Loss Account the Reconciliation of Movements in Shareholders Funds the Balance Sheet the Cash Flow Statement and the Notes to the Financial Statements numbered 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 30 September 2011 and of its profit for the year then ended have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if in our opinion adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us or the financial statements are not in agreement with the accounting records and returns or certain disclosures of directors' remuneration specified by law are not made or we have not received all the information and explanations we require for our audit.



Stuart McLaren (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

30th January 2012

FIRST DEBENTURE FINANCE PLC

PROFIT AND LOSS ACCOUNT
for the year ended 30th September 2011

	Notes	2011 £	2010 £
Interest premium and discount receivable	2	5 953 140	5 946 688
Administrative expenses		(48 115)	(59 196)
Operating profit before finance costs and taxation		<u>5 905 025</u>	<u>5 887 492</u>
Finance costs of borrowings	3	(5 863 178)	(5 857 417)
Operating profit on ordinary activities before taxation	4	<u>41 847</u>	<u>30 075</u>
Tax on profit on ordinary activities	6	(697)	(714)
Retained profit for the year	13	<u>41 150</u>	<u>29 361</u>

All the profits and losses of the Company have been derived from continuing activities

There are no recognised gains or losses for the current or previous financial year other than as stated in the profit and loss account

The notes on pages 11 to 18 form part of these financial statements

FIRST DEBENTURE FINANCE PLC

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
for the year ended 30th September 2011

	Called up Share Capital	Share Premium Account £	Profit and Loss Account £	Total £
Net deficit at 1st October 2009	548	4 617 892	(5 000 942)	(382 502)
Profit for the financial year	-		29 361	29 361
Net deficit at 30th September 2010	548	4 617 892	(4 971 581)	(353 141)
Net deficit at 1st October 2010	548	4 617 892	(4 971 581)	(353 141)
Reclassification of C Shares (note 11)	49 760	-	-	49 760
Profit for the financial year	-	-	41 150	41 150
Net deficit at 30th September 2011	50 308	4 617 892	(4 930 431)	(262 231)

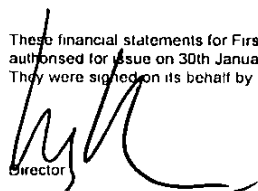
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FIRST DEBENTURE FINANCE PLC

BALANCE SHEET
as at 30th September 2011

	Notes	2011 £	2011 £	2010 £
Fixed assets				
Investments	7		51 342 285	51 265 880
Current assets				
Debtors due within one year	8	1 422 807		1 412 935
Cash at bank and in hand		84 330		73 134
		<u>1 507 137</u>		<u>1 486 069</u>
Creditors				
Amounts falling due in less than one year	9	<u>(1,463,934)</u>		<u>(1,463,538)</u>
Net current assets			43 203	22 531
Total assets less current liabilities			<u>51 385 488</u>	<u>51 288 411</u>
Creditors - Amounts falling due after more than one year	10		(51 647 719)	(51 641 552)
Net liabilities			<u>(262 231)</u>	<u>(353 141)</u>
Capital and reserves				
Called up share capital	11		50 308	548
Share premium account	12		4 617 892	4 617 892
Profit and loss account	13		(4 930 431)	(4 671 581)
Shareholders deficit			<u>(262 231)</u>	<u>(353 141)</u>

These financial statements for First Debenture Finance plc company number 02184859 were approved by the Board of Directors and authorised for issue on 30th January 2012
They were signed on its behalf by


Director

The notes on pages 11 to 18 form part of these financial statements

FIRST DEBENTURE FINANCE PLC

CASH FLOW STATEMENT
for the year ended 30th September 2011

	2011 £	2010 £
Net cash inflow from operating activities (note (a))	5 819 161	5 785 949
Returns on investments and servicing of finance		
Debenture interest paid	(5 807 250)	(5 807 250)
Overdraft interest paid	(1)	(89)
Taxation		
Corporation tax (paid) received	(714)	25 130
Net cash inflow after financing	<u>11 196</u>	<u>3 740</u>
Increase in cash (note (c))	<u>11 196</u>	<u>3 740</u>

Notes to the cash flow statement

a) Reconciliation of operating profit before taxation and interest to net cash inflow from operating activities	2011 £	2010 £
Operating profit before taxation and finance costs	5 905 025	5 887 492
Increase in value of fixed asset investments	(76 405)	(106 824)
(Increase) Decrease in debtors	(9 872)	6 075
Increase (Decrease) in creditors	413	(794)
Net cash inflow from operating activities	<u>5 819 161</u>	<u>5 785 949</u>
b) Reconciliation of net cash flow to movement in net debt	2011 £	2010 £
Increase in cash during year	11 196	3 740
Other non cash movements	(55 927)	(50 078)
Change in net debt	<u>(44 731)</u>	<u>(46 338)</u>
Net debt at 1st October	(53 000 343)	(52 954 005)
Net debt at 30th September (Note (c))	<u>(53 045 074)</u>	<u>(53 000 343)</u>

The notes on pages 11 to 18 form part of these financial statements

FIRST DEBENTURE FINANCE PLC
CASH FLOW STATEMENT (continued)
for the year ended 30th September 2011

c) Analysis of changes in net debt	At 1st Oct 2010 £	Cash flows £	Other changes £	At 30th Sept 2011 £
Cash in hand and at bank	73 134	11 196	-	84 330
Debt due within one year	(1 431 925)	-	-	(1 431 925)
Debt due after one year	(51 641 552)	-	(55 927)	(51 697 479)
	<u>(53 000 343)</u>	<u>11 196</u>	<u>(55 927)</u>	<u>(53 045 074)</u>

The notes on pages 11 to 18 form part of these financial statements

FIRST DEBENTURE FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30th September 2011

1 Accounting policies

The financial statements have been prepared in accordance with the applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice (UK GAAP)

a) Accounting Convention

These financial statements have been prepared in accordance with the historical cost convention

The accounting policies adopted in preparing the current year's financial statements are consistent with those of previous years

b) Going Concern

The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the borrowers of the loan notes and bonds have guaranteed their proportionate share of the repayment required by the Company to repay its principal and interest on the £52.2 million of 11.125% Severally Guaranteed Debenture Stock 2018. The directors have evaluated the financial positions of the borrowers of the loan notes and bonds and have determined there to be no issue around their going concern or meeting of the guarantee. There are floating charges on each of the borrower's present and future assets and the borrowers have also agreed to meet their proportionate share of any expenses incurred by the Company including any tax liability which may accrue to the Company generally or as a result of the redemption or earlier transfer of the loan notes and bonds held by the Company as set out in Note 10(i) to the financial statements

c) Interest, premium and discount receivable

Interest, premium and discount receivable are recognised in the profit and loss account as set out in Note 1(e) below. Bank interest is accounted for on an accruals basis

d) Finance costs

Finance costs of financial liabilities are recognised in the profit and loss account as set out in Note 1(f) below

e) Fixed assets

Bonds

The bonds are issued by the two investment trusts (Merchants and Brunner) and are listed on the Luxembourg Stock Exchange. They are classified as held to maturity investments and measured at amortised cost using the effective interest rate method, less impairment in accordance with FRS 26 Financial Instruments Recognition and Measurement. Amortised cost is calculated by taking into account any issue costs and any discount or premium

Loan notes

The loan notes are unlisted and are included in financial assets. They are classified as loans and receivables and measured at amortised cost using the effective interest rate method, less impairment in accordance with FRS 26 Financial Instruments Recognition and Measurement. Amortised cost is calculated by taking into account any issue costs and any discount or premium

Interest, premium and discount are accrued on the bonds and loan notes at constant rates, being in each case that implicit in the terms on which the investment was acquired, and are shown net of interest adjustments calculated under the terms of the loan agreements. The bonds and loan notes are carried in the balance sheet at cost plus accrued discount and interest. Accrued interest in respect of the current interest period is shown separately under debtors due within one year

f) Debenture Stock

Debenture stock is classified as other financial liabilities and measured at amortised cost using the effective interest rate method. The debenture stock is stated at the amount of net proceeds received immediately after issue plus the appropriate accrued finance costs at the balance sheet date. The finance costs of such borrowings (being the difference between the net proceeds of a borrowing and the total payments that may be required in respect of that borrowing) are allocated to the profit and loss account over the term of the Debenture Stock at a constant rate on the carrying amount

g) Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted

FIRST DEBENTURE FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September 2011

	2011 £	2010 £
2 Interest and discount receivable		
Interest and redemption premium received on notes and bonds	5 866 827	5 845 850
Movement in interest accrued in respect of current interest period on notes and bonds	9 872	(8 075)
	<u>5 876 699</u>	<u>5 839 775</u>
Movement in other interest and discount accrued	76 405	106 824
Total accruing interest and discount on notes and bonds	<u>5 953 104</u>	<u>5 946 599</u>
Bank deposit and other interest receivable	36	89
	<u>5,953,140</u>	<u>5 946,688</u>

	2011 £	2010 £
3 Finance costs of borrowings		
Interest and redemption premium payable on debenture stock (repayable after five years)	5 807 250	5 807 250
Amortisation of finance costs	55 927	50 078
Overdraft interest	1	89
	<u>5,863,178</u>	<u>5,857,417</u>

	2011 £	2010 £
4 Operating profit on ordinary activities before taxation		
The operating profit on ordinary activities before taxation is arrived at after charging		
Auditor's remuneration (inclusive of VAT)	<u>13,200</u>	<u>11,475</u>

Amounts paid to the auditor's in respect of non-audit services for taxation advice amounted to £6 960 inclusive of VAT (2010 - £19 445)

	2011 £	2010 £
5 Staff costs and directors' emoluments		
Emoluments of the directors were as follows		
Fees	<u>1,000</u>	<u>4,000</u>

These fees are payable to RCM (UK) Limited. There are no employees of the Company.

FIRST DEBENTURE FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September 2011

	2011 £	2010 £
6 Taxation on profit on ordinary activities		
Corporation tax payable at 20.5% (2010 - 21%)	697	714
The current tax charge assessed for the year is lower than that resulting from applying the standard rate of corporation tax of 27% (2010 - 28%). The differences are explained below		
Operating profit on ordinary activities before taxation	41,847	30,074
Tax at 27% (2010 - 28%) thereon	11,299	8,421
Reconciling factors		
Effect of small companies tax rate	(2,720)	(2,105)
Non-taxable item	(7,882)	(5,602)
Current tax charge for the year	697	714

At a Board Meeting on 29th January 2010 the Directors agreed to elect that the Company be taxed under the Securitisation Companies Regulations 2006 (SI 2006/3296) for the accounting period commencing 1st October 2007 and all subsequent accounting periods

	Listed bonds on the Luxembourg Stock Exchange £	Unlisted loan notes £	Total £
7 Fixed asset investments			
Original cost			
At 1st October 2010 and 30th September 2011	32,443,845	8,110,962	40,554,807
Amortised cost			
At 1st October 2010	40,979,250	10,286,630	51,265,880
Movement in other interest and discount accrued	75,059	1,346	76,405
At 30th September 2011	41,054,309	10,287,976	51,342,285

The fixed asset investments comprise unlisted stepped rate loan notes and listed stepped rate bonds issued by two investment trusts (The Brunner Investment Trust plc and The Merchants Trust plc). It is the intention to hold these investments to maturity or until earlier repayment in accordance with the terms.

In accordance with FRS 26 the bonds are classified as held to maturity investments and measured at amortised cost using the effective interest rate method.

In accordance with FRS 26 the loan notes are classified as loans and receivables and are measured at amortised cost using the effective interest rate method.

	2011 £	2010 £
8 Debtors		
Amounts due within one year		
Accrued income	1,422,807	1,412,935

FIRST DEBENTURE FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September 2011

	2011 £	2010 £
9 Creditors - amounts falling due within one year		
Debenture interest payable	1 431 925	1 431 925
Corporation tax payable	697	714
Other creditors	31 312	30 899
	<u>1,463,934</u>	<u>1,463,538</u>
10 Creditors - amounts falling due after one year		
11 125% Debenture Stock 2018 (at par)	52 200 000	52 200 000
New issue expenses	(580 768)	(580 768)
Discount on issue	(533 738)	(533 738)
	<u>51 085 494</u>	<u>51 085 494</u>
Amount on issue		
Amortisation of discount and issue costs	<u>562,225</u>	<u>506,298</u>
	<u>51 647 719</u>	<u>51 591 792</u>
C shares (note 11)	-	49 760
	<u>51 647,719</u>	<u>51,641,552</u>

- i) The Debenture Stock is due to be repaid at par on 2nd January 2018 subject to early repayment in accordance with its terms

The Debenture Stock is secured by a fixed charge over the investments and book debts of the Company and a floating charge over the whole of the remainder of its undertaking property and assets. The stock is severally guaranteed by two listed investment trusts (The Brunner Investment Trust plc and The Merchants Trust plc) in proportion to the relative original principal amounts of bonds and notes issued by those investment trusts and purchased by the Company from the proceeds of the stock.

FIRST DEBENTURE FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September 2011

	2011 £	2010 £
11 Called up share capital		
Authorised		
120 A shares of £1 each	120	120
120 B shares of £1 each	120	120
49 760 C shares of £1 each	49 760	49 760
5 000 000 D shares of 1p each	50 000	50 000
	<u>100,000</u>	<u>100,000</u>
Allotted and fully paid		
120 A shares of £1 each	120	120
120 B shares of £1 each	120	120
49 760 C shares of £1 each	49 760	-
30 788 D shares of 1p each	308	308
	<u>50,308</u>	<u>548</u>

The 'A' shares of £1 each confer on the holders the right to receive

a) the balance of the profits available for distribution and resolved to be distributed in any one financial period to a maximum of £3 000 p a after the payment of the dividend to the holders of C shares

b) three quarters of the profits available for distribution and resolved to be distributed in any one year after meeting the preferential dividend payable in respect of the C shares and the preferential dividend referred to in (a) above pari passu with the holders of the B shares and

c) on winding up three quarters of the surplus remaining after payment to the holders of the C shares of their entitlements pari passu with the holders of the B shares

The A shares carry the right to one vote per share

The B shares of £1 each confer on the holders the right to receive

a) one quarter of the profits available for distribution and resolved to be distributed in any one year after meeting the preferential dividend payable in respect of the C shares and the preferential dividend in respect of the A shares referred to above pari passu with the ordinary dividend payable to holders of the A shares and

b) on winding up one quarter of the surplus remaining after payment to the holders of the C shares of their entitlements pari passu with the holders of the A shares

The B shares carry the right to one vote per share

The C shares of £1 each confer on the holders the right to receive

a) one quarter of the profits available for distribution and resolved to be distributed in any one financial period subject to a maximum of £1 000 p a but with no further right to share in the profits of the Company and

b) on winding up £49 760 ranking in priority to all other shares in the capital of the Company

The C shares do not carry the right to receive notice of or attend or vote at any general meeting of the Company

The D shares of 1p each confer on the holders the right to receive

a) a non cumulative preferential dividend at the rate of 5% per annum (net of any related tax credit) on the nominal value thereof after meeting the preferential dividend payable in respect of the C shares and the A' shares but with no further or other right to any dividend and

b) on winding up a sum equal to the amount subscribed for such D shares after payment to the holders of the C shares

The D shares do not carry the right to receive notice of or attend or vote at any general meeting of the Company

The C shares were classified as a liability in the prior year however it has now been determined that the appropriate classification under FRS 25 Financial Instruments Disclosure and Presentation is that of Equity rather than Liability as dividend payments are at the discretion of the Company and as per the Articles of Association these dividends must be resolved to be distributed by the Company Prior year figures have not been restated because the change in classification does not meet the definition of a fundamental error The effect of classifying the C Shares as Equity in the prior year would have been to change the Shareholders' deficit and net liabilities to £303 381

FIRST DEBENTURE FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September 2011

12 Share premium account	£
Balance at 1st October 2010	4 617 892
Movement in year	-
Balance at 30th September 2011	<u>4,617,892</u>
13 Profit and loss account	£
Balance at 1st October 2010	(4 971 581)
Profit for the financial year	41 150
Balance at 30th September 2011	<u>(4,930,431)</u>

14 Related party transactions

The unlisted stepped rate loan notes and listed stepped rate bonds included in fixed asset investments are issued by two investment trusts which also hold a substantial interest in the Company as disclosed in the Directors' Report. The carrying value of these notes and bonds is shown in Note 7 and the movement in interest accrued during the period is shown in Note 2.

15 Financial Risk Management Policies and Procedures

The Company's financial instruments during the year consisted of the listed Debenture stock, the unlisted stepped rate loan notes, the listed stepped rate bonds and cash. As noted in the Report of the Directors, the purpose of the listed Debenture stock was to raise finance for certain investment trusts managed by RCM (UK) Limited through fixed asset loan notes and bonds. The main risks for the Company are summarised below.

Market risk

Market risk arises mainly from uncertainty about future values of financial instruments held specifically from price, foreign currency and interest rate movements. It represents the potential loss the Company might suffer through holding market positions in the face of market movements.

a) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk). The financial assets comprise unlisted stepped rate loan notes and listed stepped rate bonds. The financial liabilities comprise the 11.125% Debenture Stock. It is the intention to hold these financial instruments to maturity or until earlier repayment in accordance with the terms, therefore the price risk is not deemed material to the entity.

b) Foreign currency risk

The Company did not enter into foreign currency transactions during the year and therefore there is no currency risk.

c) Interest rate risk

Interest rate risk is split into two categories: cash-flow interest rate risk and fair value interest rate risk.

Cash flow interest rate risk is the risk that the future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company typically maintains a low cash balance and therefore exposure to cash flow interest rate risk is minimal.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. As the Company has fixed rate long term Debenture Stock, loan notes and bonds, it is exposed to fair value interest rate risk. The risk should be minimal since movements in market rates will have an opposing effect on the valuation of the Debenture Stock to the valuation of the notes and bonds. In addition, it is the intention to hold these financial instruments to maturity or until earlier repayment in accordance with the terms.

FIRST DEBENTURE FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September 2011

15 Financial Risk Management Policies and Procedures (Continued)

The contractual maturities of the financial assets and liabilities at 30th September 2011 based on the earliest date on which payment can be required to be made was as follows

	Maturity Date	Contracted interest rate at 30th Sept 2011	Effective interest rate at 30th Sept 2011
Bonds	2 January 2018	14.5	11.5
Loan Notes	2 January 2018	14.5	11.5
Debenture Stock	2 January 2018	11.125	11.7
		Contracted interest rate at 30th Sept 2010	Effective interest rate at 30th Sept 2010
Bonds	2 January 2018	14.5	11.5
Loan Notes	2 January 2018	14.5	11.5
Debenture Stock	2 January 2018	11.125	11.7

Credit risk

The risk that funds are not received from the borrowers of the loans. In the event of the assets of any borrower being less than the amount required to repay its borrowings there is a risk of default by that borrower. The borrowers have guaranteed their proportionate share of the repayment required by the Company to repay its principal and interest on the £52.2 million of 11.125% Severally Guaranteed Debenture Stock 2018. There are floating charges on each of the borrower's present and future assets and the borrowers have also agreed to meet their proportionate share of any expenses incurred by the Company including any tax liability which may accrue to the Company generally or as a result of the redemption or earlier transfer of the loan notes and bonds held by the Company as set out in Notes 10(i) and 11 to the financial statements.

Liquidity risk

The Company manages its liquidity through the Debenture Stock and the bank overdraft facility. The Debenture Stock interest is matched by that of the loan notes and bonds. The borrowing investment trusts contribute to the running costs of the Company. There are deemed to be no further liquidity risks.

Future cash flows in respect of the financial liabilities at 30th September 2011 based on the earliest date on which payment can be required to be made was as follows

	2011 £	2011 £	2011 £	2011 £
	3 months or less	Not more than one year	Between one and five years	More than five years
Creditors - Amounts falling due within one year				
Finance costs of Debenture Stock	-	5,807,250	-	-
Other creditors	31,312	697	-	-
Creditors - Amounts falling due after more than one year				
Finance costs	-	-	23,229,000	8,710,875
Amounts payable on maturity of Debenture Stock	-	-	-	52,200,000
Amounts payable on C shares	-	-	-	49,760
	<u>31,312</u>	<u>5,807,947</u>	<u>23,229,000</u>	<u>60,960,635</u>
				<u>90,028,894</u>
	2010 £	2010 £	2010 £	2010 £
	3 months or less	Not more than one year	Between one and five years	More than five years
Creditors - Amounts falling due within one year				
Finance costs of Debenture Stock	-	5,807,250	-	-
Other creditors	30,899	714	-	-
Creditors - Amounts falling due after more than one year				
Finance costs of Debenture Stock	-	-	23,229,000	14,518,125
Amounts payable on maturity of Debenture Stock	-	-	-	52,200,000
Amounts payable on C shares	-	-	-	49,760
	<u>30,899</u>	<u>5,807,964</u>	<u>23,229,000</u>	<u>66,767,885</u>
				<u>95,835,748</u>

The Debenture Stock is repayable in January 2018.

The bonds and notes issued by the investment trusts are redeemable in January 2018.

FIRST DEBENTURE FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September 2011

15 Financial Risk Management Policies and Procedures (Continued)

Fair value disclosure

With the exception of the Debenture Stock and the bonds and loan notes issued by the investment trusts all the other assets and liabilities of the Company are held at fair value

	2011 Fair Value £ million	2011 Book Value £ million	2010 Fair Value £ million	2010 Book Value £ million
Debenture Stock	(74.5)	(51.5)	(74.5)	(51.5)
Bonds and Loan Notes	73.5 - 71.8	51.1	73.6 - 71.7	51.1

The fair value of the Debenture Stock has been calculated using the clean closing price at 30th September 2011 of 142.64p (2010 - 142.81p)

The range of fair values of the bonds has been calculated at lower and upper margins of 200-250 basis points above the gross redemption yield of Treasury B 75% 2017 at the year end being 1.56% (2010 - 2.26%)

The fair value of the loan notes has been calculated in each case 100 basis points higher than the bonds

Hedging instruments

The Company had no hedging arrangements in place at the year end

16 Capital Management Policy	2011 £	2010 £
The company's capital at 30 September comprises		
Net Long Term Debt		
Creditors - Amounts falling due after more than one year	51,647,719	51,641,552
Less - Loans to Borrowers	(51,342,285)	(51,265,880)
	305,434	375,672
Equity		
Called up Share Capital	50,308	548
Total Capital	355,742	376,220

The Company manages its total capital to ensure that it will be able to continue to meet its obligation to repay the Debenture Stock on 2nd January 2018. This strategy remains unchanged from 2010

17 Ultimate parent company

In the opinion of the directors the Company does not have a controlling party. The shares of the Company are owned by the two investment trusts as described in the Directors' Report. Both investment trusts are incorporated in Great Britain and their financial statements are available from 155 Bishopsgate, London EC2M 3AD