

Company No
2184859

FIRST DEBENTURE FINANCE PLC
Report and Financial Statements
for the year ended 30th September 2009

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FIRST DEBENTURE FINANCE PLC

REPORT OF THE DIRECTORS

for the year ended 30th September 2009

The directors have pleasure in submitting their report and the audited financial statements for the year ended 30th September 2009

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.

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 10 and Note 12. There have been no changes in the year under review.

Principal Risks

The principal risks faced by the Company other than those identified in Note 16 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) and 11 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.

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.

FIRST DEBENTURE FINANCE PLC
REPORT OF THE DIRECTORS continued
for the year ended 30th September 2009

POST BALANCE SHEET EVENTS

Post balance sheet events are referred to in Note 17

RESULTS AND DIVIDENDS

The results of the Company for the year are set out in detail on page 6. A profit of £4,329,505 has been credited to reserves (2008: profit £87,923). The directors do not recommend the payment of a dividend (2008: £nil).

DIRECTORS

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

B J Doran
M D Hooper
B C R Siddons
S R T White

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 (2008: 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 (2008: £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 2nd February 2010:

Allianz Dresdner Smaller Companies Investment Trust plc ('Smaller') *	26 (or 21.6%) 'A' shares	8 (or 6.7%) 'B' shares
The Brunner Investment Trust PLC ('Brunner')	47 (or 39.2%) 'A' shares	41 (or 34.1%) 'B' shares
The Merchants Trust PLC ('Merchants')	47 (or 39.2%) 'A' shares	71 (or 59.2%) 'B' shares

in members' voluntary liquidation

CORPORATE GOVERNANCE

The Company has listed Debenture Stock 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.

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 (2008: £nil).

FIRST DEBENTURE FINANCE PLC

REPORT OF THE DIRECTORS continued
for the year ended 30th September 2009

INDEPENDENT AUDITORS

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 auditors are 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 auditors are 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 auditors. 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

2nd February 2010

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 the 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 stated 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's 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 AUDITORS' 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 2009 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 18. 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 auditors

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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

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 2009 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.

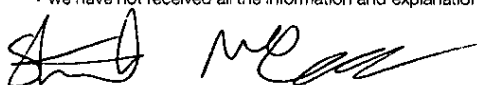
Opinion on other matter prescribed by the Companies Act 2006

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 Auditors
London, United Kingdom

2nd February 2010

FIRST DEBENTURE FINANCE PLC

PROFIT AND LOSS ACCOUNT
for the year ended 30th September 2009

	Notes	2009 £	2008 £
Interest, premium and discount receivable	2	5 965,303	6,023,065
Administrative expenses		(95 992)	(67,043)
Operating profit before finance costs and taxation		<u>5 869,311</u>	<u>5,956 022</u>
Finance costs of borrowings	3	(5,853 526)	(5,847 400)
Operating profit on ordinary activities before taxation	4	<u>15,785</u>	<u>108,622</u>
Tax credit (charge) on profit on ordinary activities	6	4 313,720	(20 699)
Retained profit for the year	14	<u>4,329,505</u>	<u>87 923</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 2009

	Called up Share Capital	Share Premium Account £	Profit and Loss Account £	Total £
Net deficit at 30th September 2007	548	4,617,892	(9,418,370)	(4,799,930)
Profit for the financial year	-	-	87,923	87,923
Net deficit at 30th September 2008	548	4,617,892	(9,330,447)	(4,712,007)
Net deficit at 30th September 2008	548	4,617,892	(9,330,447)	(4,712,007)
Profit for the financial year	-	-	4,329,505	4,329,505
Net deficit at 30th September 2009	548	4,617,892	(5,000,942)	(382,502)

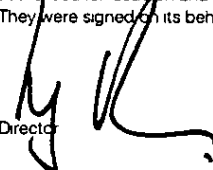
The notes on pages 11 to 18 form part of these financial statements

FIRST DEBENTURE FINANCE PLC

BALANCE SHEET
as at 30th September 2009

	Notes	2009 £	2009 £	2008 £
Fixed assets				
Investments	7		51 159,056	51,131,316
Current assets				
Debtors - due within one year	8	1 444 140		1,430,046
Cash at bank and in hand		69 394		51 488
		<u>1 513,534</u>		<u>1,481,534</u>
Creditors				
Amounts falling due in less than one year	9	<u>(1 463 618)</u>		<u>(1,489,633)</u>
Net current assets (liabilities)			49,916	(8 099)
Total assets less current liabilities			<u>51,208,972</u>	<u>51 123 218</u>
Creditors - Amounts falling due after more than one year	10		(51,591 474)	(51 546 632)
Deferred taxation	11			(4 288 592)
Net liabilities			<u>(382 502)</u>	<u>(4 712 006)</u>
Capital and reserves				
Called up share capital	12		548	548
Share premium account	13		4 617 892	4,617,892
Profit and loss account	14		(5,000,942)	(9 330,447)
Shareholders' deficit			<u>(382,502)</u>	<u>(4,712,007)</u>

These financial statements for First Debenture Finance plc company number 02184859 were approved by the Board of Directors and authorised for issue on 2nd February 2010.
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 2009

	2009 £	2008 £
Net cash inflow from operating activities (note (a))	5 853 148	5 818 626
Returns on investments and servicing of finance		
Debenture interest paid	(5 807 250)	(5 807 248)
Overdraft interest paid	(1,434)	-
Taxation		
Corporation tax paid	(26,558)	(11,971)
Net cash inflow (outflow) after financing	<u>17 906</u>	<u>(593)</u>
Increase (Decrease) in cash (note (c))	<u>17 906</u>	<u>(593)</u>

Notes to the cash flow statement

a) Reconciliation of operating profit before taxation and interest to net cash inflow from operating activities	2009 £	2008 £
Operating profit before taxation and finance costs	5,869,311	5,956,022
Increase in value of fixed asset investments	(27,740)	(156 313)
Decrease in debtors	11,035	6,504
Increase in creditors	541	12 413
Net cash inflow from operating activities	<u>5 853 148</u>	<u>5 818 626</u>
b) Reconciliation of net cash flow to movement in net debt	2009 £	2008 £
Increase (Decrease) in cash during year	17 906	(593)
Other non cash movements	(44 842)	(40 151)
Change in net debt	<u>(26 936)</u>	<u>(40 744)</u>
Net debt at 1st October	(51 495 144)	(51,454,400)
Net debt at 30th September (Note (c))	<u>(51 522 080)</u>	<u>(51 495 144)</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 2009

c) Analysis of changes in net debt	At 1st Oct 2008 £	Cash flows £	Other changes £	At 30th Sept 2009 £
Cash in hand and at bank	51,488	17,906		69,394
Debt due after one year	(51,546,632)	-	(44,842)	(51,591,474)
	<u>(51,495,144)</u>	<u>17,906</u>	<u>(44,842)</u>	<u>(51,522,080)</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 2009

1 Accounting policies

The financial statements have been prepared in accordance with the applicable United Kingdom law and accounting standards

a) Accounting Convention

These financial statements have been prepared in accordance with the historical cost convention, except for the revaluation of certain financial instruments

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

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. 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(f) and 11 to the financial statements

b) Interest, premium and discount receivable

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

c) Finance costs

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

d) Fixed assets

Bonds

The bonds are issued by the two investment trusts (Merchants and Brunner) and are listed. They are classified as held to maturity investments and measured at amortised cost using the effective interest rate method 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 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

e) 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

f) 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

g) 'C' shares

In accordance with FRS 25 "Financial Instruments: Disclosure and Presentation", the 'C' shares are classified as a liability as the rights of the shareholder to receive dividend payments (if profits are resolved to be distributed) are limited to a specific amount and are not calculated by reference to the Company's profits

FIRST DEBENTURE FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September 2009

	2009 £	2008 £
2 Interest and discount receivable		
Interest and redemption premium received on notes and bonds	5,947,057	5 872 401
Movement in interest accrued in respect of current interest period on notes and bonds	(11 035)	(6,504)
	<u>5 936,022</u>	<u>5,865 897</u>
Movement in other interest and discount accrued	27,740	156,313
Total accruing interest and discount on notes and bonds	<u>5,963,762</u>	<u>6 022 210</u>
Bank deposit and other interest receivable	107	855
Other income	1 434	
	<u>5,965,303</u>	<u>6 023 065</u>

	2009 £	2008 £
3 Finance costs of borrowings		
Interest and redemption premium payable on debenture stock (repayable after five years)	5,807 250	5 807 249
Amortisation of finance costs	44,842	40,151
Overdraft interest	1,434	
	<u>5 853 526</u>	<u>5 847 400</u>

	2009 £	2008 £
4 Operating profit on ordinary activities before taxation		
The operating profit on ordinary activities before taxation is arrived at after charging		
Auditors' remuneration (inclusive of VAT)	<u>14,375</u>	<u>15,275</u>
Amounts paid to the auditors in respect of non-audit services for taxation advice amounted to £43 104 inclusive of VAT (2008 - £29 375)		

	2009 £	2008 £
5 Staff costs and directors' emoluments		
Emoluments of the directors were as follows		
Fees	<u>1 750</u>	<u>1,000</u>
There are no employees of the Company		

FIRST DEBENTURE FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September 2009

	2009 £	2008 £
6 Taxation on profit on ordinary activities		
Corporation tax payable at 21% (2008 - 21.5%)	(25 129)	26 557
Deferred tax	-	(5,858)
Reversal of deferred tax provision	Note 11 (4 288,592)	-
	<u>(4 313 720)</u>	<u>20,699</u>

The current tax charge assessed for the year is lower than that resulting from applying the standard rate of corporation tax of 28% (2008 - 28%). The differences are explained below:

Operating profit on ordinary activities before taxation	15 785	108 622
Tax at 28% (2008 - 28%) thereon	4,420	30 414
Reconciling factors		
Reversal of timing differences	-	4,289
Effect of small companies tax rate	(1,105)	(8 145)
Over provision in previous year	(25 842)	(1)
Non taxable item	(2,602)	-
Current tax credit (charge) for the year	<u>(25 129)</u>	<u>26,557</u>

7 Fixed asset investments	Listed bonds on an overseas exchange £	Unlisted loan notes £	Total £
Original cost			
At 1st October 2008 and 30th September 2009	<u>32 443 845</u>	<u>8 110 962</u>	<u>40 554 807</u>
Amortised cost			
At 1st October 2008	40,852,142	10 279 174	51,131 316
Movement in other interest and discount accrued	60 000	(32,260)	27 740
At 30th September 2009	<u>40 912 142</u>	<u>10 246 914</u>	<u>51 159 056</u>

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.

8 Debtors	2009 £	2008 £
Amounts due within one year -		
Accrued income	1 419 011	1 430 046
Corporation tax receivable	25 129	-
	<u>1 444 140</u>	<u>1 430 046</u>

9 Creditors - amounts falling due within one year	2009 £	2008 £
Debenture interest payable	1,431,925	1 431,925
Corporation tax payable		26,556
Other creditors	31 693	31 152
	<u>1 463 618</u>	<u>1 489 633</u>

FIRST DEBENTURE FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September 2009

	2009 £	2008 £
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)
Amount on issue	51,085,494	51,085,494
Amortisation of discount and issue costs	456,220	411,378
	51,541,714	51,496,872
'C' shares	49,760	49,760
	51,591,474	51,546,632

- 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.

- ii) 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

11 Deferred taxation

	£
Balance at 1st October 2008	4,288,592
Reversal of deferred tax provision	(4,288,592)
Balance at 30th September 2009	-

The provision for deferred taxation consists of the following amounts

	2009 £	2008 £
Frozen gain on notes and bonds issued by investment trusts (see below)	-	4,186,000
Timing difference on unamortised debenture issue costs	-	102,592
	-	4,288,592

Previously, under the provisions of the Finance Act 1995 in relation to the Company's holding of notes and bonds issued by the two listed investment trusts, taxable income equal to the excess of market value at 28th November 1994 over original cost was deemed to arise on redemption in 2018 or transfer if earlier. A deferred tax provision was established to reflect this liability.

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. As a result of this election, the deferred tax provision has been released.

FIRST DEBENTURE FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September 2009

	2009 £	2008 £
12 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
30 788 'D' shares of 1p each	308	308
	<u>548</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 '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

FIRST DEBENTURE FINANCE PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 30th September 2009

13 Share premium account	£
Balance at 1st October 2008	4 617 892
Movement in year	
Balance at 30th September 2009	<u>4 617,892</u>
14 Profit and loss account	£
Balance at 1st October 2008	(9,330 447)
Profit for the financial year	4,329,505
Balance at 30th September 2009	<u>(5,000 942)</u>

15 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.

16 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 cashflow 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.

FIRST DEBENTURE FINANCE PLC
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September 2009

16 Financial Risk Management Policies and Procedures (Continued)

The contractual maturities of the financial assets and liabilities at 30th September 2009, 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 2009	Effective interest rate at 30th Sept 2009
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 2008	Effective interest rate at 30th Sept 2008
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. Also, the borrowing investment trusts contribute to the running cost of the Company. There are deemed to be no further liquidity risks.

The contractual maturities of the financial liabilities at 30th September 2009, based on the earliest date on which payment can be required to be made was as follows:

	2009 £	2009 £	2009 £	2009 £
	3 months or less	Not more than one year	Between one and five years	More than five years
Current liabilities	31,693	1,431,925	-	51,591,474
Non-current liabilities	31,693	1,431,925	-	51,591,474
				<u>53,055,092</u>
	2008 £	2008 £	2008 £	2008 £
	3 months or less	Not more than one year	Between one and five years	More than five years
Current liabilities	31,152	1,458,481	-	-
Non-current liabilities	-	-	-	55,835,224
	<u>31,152</u>	<u>1,458,481</u>	<u>-</u>	<u>55,835,224</u>
				<u>57,324,857</u>

The Debenture Stock is repayable in January 2018.

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30th September 2009

16 Financial Risk Management Policies and Procedures (Continued)

Fair value disclosure

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

	2009	2009	2008	2008
	Fair Value	Book Value	Fair Value	Book Value
	£ million	£ million	£ million	£ million
Debenture Stock	(70.6)	(51.5)	(73.2)	(51.5)
Bonds and Loan Notes	70.0 - 72.1	51.1	66.5 - 68.6	51.1

The fair value of the Debenture Stock has been calculated using the clean closing price at 30th September 2009 of 135.2p (2008 - 138.3p)

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 8.75% 2017 at the year end being 3.17% (2008 - 4.51%)

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

17 Post balance sheet events

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. As a result of this election the deferred tax provision has been released as the Company is now taxable on a basis that results in the deferred gains not being taxable

18 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 three investment trusts as described in the Directors' Report. All three investment trusts are incorporated in Great Britain and their financial statements are available from 155 Bishopsgate, London EC2M 3AD