

ORCHARDBROOK LIMITED

Report and Financial Statements

For the year ended 31 December 2008

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ORCHARDBROOK LIMITED

Report and Financial Statements for the year ended 31 December 2008

CONTENTS

Page

Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditors' report	5
Profit and loss account	6
Balance sheet	7
Cash flow statement	8
Notes to the accounts	9

ORCHARDBROOK LIMITED

Report and Financial Statements for the year ended 31 December 2008

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Capita Trust Company Limited
Capita Trust Corporate Services Limited

SECRETARY

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

REGISTERED OFFICE

10 Upper Bank Street
London
E14 5JJ

BANKERS

The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

SOLICITORS

Clifford Chance
10 Upper Bank Street
London
E14 5JJ

AUDITORS

Deloitte LLP
London

ORCHARDBROOK LIMITED

Report and Financial Statements for the year ended 31 December 2008

DIRECTORS' REPORT

The directors present their report on the affairs of Orchardbrook Limited ("the Company") together with the financial statements and auditors' report for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment in asset backed loan notes.

BUSINESS REVIEW

During the period the Company maintained its investment in asset backed notes. The directors expect the level of activity to remain at the same level in the forthcoming financial year.

Loan note interest income, which is a key performance indicator of the Company, is comparable to 2007. Interest margins remain at 0.06% (2007: 0.06%), in line with expectations.

RESULTS AND DIVIDENDS

The results for the period and the state of the Company's affairs are set out in the accompanying financial statements.

No dividends were declared or paid by the Company during the year (2007: £nil) and the directors do not propose a final dividend (2007: £nil).

DIRECTORS AND THEIR INTERESTS

The directors who served throughout the year are as follows:

Capita Trust Company Limited
Capita Trust Corporate Services Limited

RISK MANAGEMENT POLICIES AND PROCEDURES

The directors acknowledge that the global macro-economic indicators and general business environment have deteriorated during 2008, and continue to be challenging during the first half of 2009. Market liquidity constraints, limited availability of credit and difficult trading conditions continue to pose significant challenges to all underlying businesses and borrowers to whom the Company has exposure. Conditions may deteriorate further due to the continued global financial and economic uncertainty.

The principal risks facing the Company are interest rate risk and credit risk. These risks have been monitored on an on-going basis during the year and the Company has policies in place to mitigate these risks, as summarised below.

Interest rate risk

The Company financed the investment in Finance for Residential Social Housing plc Series 3 loan notes by borrowing funds denominated in Sterling from The Royal Bank of Scotland. This funding carries a fixed interest rate. The investment in Finance for Residential Social Housing plc also yields a fixed interest rate. The interest rate risk is mitigated by matching a fixed rate asset to a fixed rate liability.

Credit risk

The Company regularly monitors its investment in Finance for Residential Social Housing Plc to ensure that it is recoverable.

GOING CONCERN RISK

The company earns a fixed rate margin of 0.06% as an excess of investment in asset back notes over long term funding. The directors have received assurances that the long term loan will not be recalled within one year and will not be repayable until the Company holds sufficient cash.

After making enquiries, and considering the uncertainties described above, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

ORCHARDBROOK LIMITED

Report and Financial Statements for the year ended 31 December 2008

DIRECTORS' REPORT

AUDITORS


Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

As required by the Companies Act 1985 section 234ZA, the directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. The directors have confirmed that they have taken all of the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

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



Capita Trust Corporate Services Ltd

Director

22 July 2009

ORCHARDBROOK LIMITED

Report and Financial Statements for the year ended 31 December 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and 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 judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, 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 ORCHARDBROOK LIMITED

We have audited the financial statements of Orchardbrook Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom 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.

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 31 December 2008 and of its result 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.



Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

23 July 2009

ORCHARDBROOK LIMITED

Report and Financial Statements for the year ended 31 December 2008

PROFIT AND LOSS ACCOUNT

	Notes	2008 £'000	2007 £'000
Interest receivable	3	634	634
Interest payable	4	(626)	(626)
Administrative expenses	5	(7)	(6)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1	2
Tax on profit on ordinary activities	6	(1)	-
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES FOR THE FINANCIAL YEAR	12	-	2
		<hr/>	<hr/>

The accompanying notes are an integral part of this profit and loss account.

The results above arose wholly from continuing operations.

There have been no recognised gains and losses attributable to the shareholders other than the profit for the current year and preceding financial period and accordingly no statement of total recognised gains and losses is shown.

ORCHARDBROOK LIMITED

Report and Financial Statements for the year ended 31 December 2008

BALANCE SHEET

	Note	2008 £'000	2007 £'000
FIXED ASSETS			
Investments	7	9,717	9,717
CURRENT ASSETS			
Debtors	8	158	158
Cash at bank		37	31
		195	189
CREDITORS: amounts falling due within one year	9	(172)	(166)
NET CURRENT ASSETS		23	23
TOTAL ASSETS LESS CURRENT LIABILITIES		9,740	9,740
CREDITORS: amounts falling due after more than one year	10	(9,717)	(9,717)
NET ASSETS		23	23
Capital and reserves			
Called-up share capital	11	-	-
Profit and loss account	12	23	23
Shareholders' funds		23	23

The accompanying notes are an integral part of this balance sheet.

These financial statements were approved and authorised for issue by the Board of Directors on 22 July 2009.
Signed on behalf of the Board of Directors


Capita Trust Corporate Services Ltd

Director

ORCHARDBROOK LIMITED

Report and Financial Statements for the year ended 31 December 2008

CASH FLOW STATEMENT

	Notes	2008 £'000	2007 £'000
Net cash inflow from operating activities	14	6	6
Increase in cash	15	6	6

The accompanying notes are an integral part of these statements.

ORCHARDBROOK LIMITED

Report and Financial Statements for the year ended 31 December 2008

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding period, is set out below:

Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention. The financial statements have been prepared on a going concern basis as explained in the Directors' Report

Due to the fact that the nature of the business is to provide loan finance, the directors are of the opinion that it is more appropriate to use interest receivable and interest payable rather than turnover and cost of sales in preparing the profit and loss account.

Interest receivable

Investment income is accounted for on an effective interest rate basis. Investment income includes interest receivable on the Series 3 loan notes acquired from Finance for Residential Social Housing Plc.

Interest payable

Interest expense paid on The Royal Bank of Scotland loan is accounted for on an accruals basis to give a constant rate of return.

Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate.

Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered.

Investments

Investments held are shown at cost less any provision for impairment.

Impairment

At each reporting date, an assessment will be made to determine if there are any indications of impairment. If indications are present, impairment testing will be performed using estimated future cash flows discounted at the original effective interest rate. Any losses will be recognised immediately in the Income Statement.

2. DIRECTORS AND EMPLOYEES

None of the directors received any emoluments for their services to the Company during the year (2007: £nil).

None of the directors had any material interest in any contract of significance in relation to the business of the Company (2007: £nil).

The Company does not have any employees (2007: nil).

3. INTEREST RECEIVABLE

	2008 £'000	2007 £'000
Interest income on loan notes	632	632
Bank interest	2	2
	<hr/>	<hr/>
	634	634
	<hr/>	<hr/>

ORCHARDBROOK LIMITED

Report and Financial Statements for the year ended 31 December 2008

NOTES TO THE FINANCIAL STATEMENTS**4. INTEREST PAYABLE**

	2008 £'000	2007 £'000
Interest on loan	626	626

5. ADMINISTRATIVE EXPENSES

	2008 £'000	2007 £'000
Auditor's fees – audit of the Company's accounts	4	4
Other fees	3	2
	<u>7</u>	<u>6</u>

6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	1	2
Current taxation: Charge for the year	<u>1</u>	<u>-</u>
Tax charge for the year	<u>1</u>	<u>-</u>

The actual tax charge differs from the expected tax charge computed by applying the applicable rate of UK corporation tax of 20.75% (2007 – 19.75%) as follows:

Expected tax charge	-	-
Taxable items under SI 2006/3296 s14(1)(a)(ii)	<u>1</u>	<u>-</u>
Actual tax charge	<u>1</u>	<u>-</u>

7. INVESTMENTS

	2008 £'000	2007 £'000
Series 3 loan notes issued by Finance for Residential Social Housing Plc	<u>9,717</u>	<u>9,717</u>

The legal maturity of the loan notes is 2058. The directors consider there has been no impairment in value, as they believe the cost of the notes will be realised in full. The annual effective interest rate applicable to these notes at period end was 6.5% (2007: 6.5%).

ORCHARDBROOK LIMITED

Report and Financial Statements for the year ended 31 December 2008

NOTES TO THE FINANCIAL STATEMENTS**8. DEBTORS**

	2008 £'000	2007 £'000
Accrued interest income on loan notes	158	158

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £'000	2007 £'000
Accruals and deferred income	171	165
Tax provision	1	1
	172	166

10. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2008 £'000	2007 £'000
Loan	9,717	9,717

The directors have received assurances from Royal Bank of Scotland Plc that the loan will not be recalled within one year and will not be repayable until Orchardbrook holds sufficient cash. Consequently this creditor has been classified as a long-term creditor.

11. SHARE CAPITAL

	2008 £	2007 £
Authorised		
100 ordinary shares of £1 each	100	100
Allotted, called-up and fully paid		
1 ordinary share of £1	1	1

12. PROFIT AND LOSS ACCOUNT

	2008 £'000	2007 £'000
Opening retained profit	23	21
Profit for the year	-	2
Closing retained profit	23	23

ORCHARDBROOK LIMITED

Report and Financial Statements for the year ended 31 December 2008

NOTES TO THE FINANCIAL STATEMENTS**13. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS**

	2008 £'000	2007 £'000
Opening equity shareholders' funds	23	21
Profit for the financial year	-	2
	<u>23</u>	<u>2</u>
Closing equity shareholders' funds	<u>23</u>	<u>23</u>

14. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2008 £'000	2007 £'000
Profit after tax	-	2
Increase in creditors	6	4
	<u>6</u>	<u>4</u>
Net cash inflow from operating activities	<u>6</u>	<u>6</u>

15. ANALYSIS OF CHANGES IN NET DEBT

	As at 31 December 2007 £'000	Cash flows £'000	As at 31 December 2008 £'000
Cash at bank	31	6	37
Debt due after one year	(9,717)	-	(9,717)
	<u>(9,686)</u>	<u>6</u>	<u>(9,680)</u>

Reconciliation of net cash flow to movement in net debt

Increase in cash	6
Net debt as at 31 December 2007	<u>(9,686)</u>
Net debt as at 31 December 2008	<u>(9,680)</u>

ORCHARDBROOK LIMITED

Report and Financial Statements for the year ended 31 December 2008

NOTES TO THE FINANCIAL STATEMENTS

16. ULTIMATE PARENT AND CONTROLLING PARTY

One ordinary share was issued on 15 January 1997 and is held by Royal Exchange Trust Company Limited on trust under the terms of a declaration of trust dated 5 March 1997 with the ultimate beneficiaries being charities chosen by the trustees.

The Company is consolidated into The Royal Bank of Scotland Group plc. The controlling party prepares consolidated financial statements and this is the largest and smallest group into which the results of the Company are consolidated.

On 1 December 2008, the UK Government through HM Treasury acquired a controlling shareholding in The Royal Bank of Scotland Group plc. The UK Government has announced that its shareholdings in banks will be managed by UK Financial Investments Limited a company wholly-owned by the UK Government.

17. RELATED PARTY TRANSACTIONS

The results of the company are consolidated into The Royal Bank of Scotland plc. The table below summarises the transactions that took place with The Royal Bank of Scotland plc during the year under review and the outstanding balances as at 31 December 2008.

	Balance sheet asset/(liability)		Profit and loss account income/(expense)	
	£'000		£'000	
	2008	2007	2008	2007
Interest on loan	-	-	(626)	(626)
Interest accruals	(156)	(156)	-	-
Loan	(9,717)	(9,717)	-	-

The Company is under common control with Finance for Residential Social Housing Plc. The table below summarises the transactions that took place with Finance for Residential Social Housing Plc during the year under review and the outstanding balances as at 31 December 2008.

	Balance sheet asset/(liability)		Profit and loss account income/(expense)	
	£'000		£'000	
	2008	2007	2008	2007
Interest on loan notes	-	-	632	632
Interest accrued	158	158	-	-
Series 3 loan notes	9,717	9,717	-	-