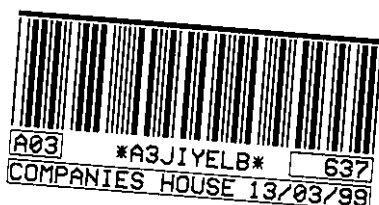


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## Corporate objectives

The objectives for the Group's two major businesses are:-

### Investment Trust

To achieve steadily increasing income and long term capital growth in real terms through investing in a high quality portfolio of investments spread both geographically and by industry

### Trustee Services

To further our position as the leading independent provider of professional trustee and related services to the international capital markets and to UK pension funds

## Performance summary

	1998	1997
<b>Total return per share</b> .....	103.81p	207.48p
<b>Dividends per share</b> .....	31.0p	28.5p

	1998	1997	increase/ (decrease) %
<b>After tax revenue return</b>			
- £000.....	8,561	8,554	2.5
- per share.....	36.74p	33.06p	2.2
<b>Net assets at 31 December</b>			
- £ millions.....	249.9	232.0	7.4
- NAV per share.....	1071.1p	990.0p	7.2
<b>Share price at 31 December</b> .....	1071.5p	1013.0p	(3.5)
<b>FT-SE Actuaries All Share Index</b> .....	2673.9	2461.1	10.9

## Chairman's statement

### Dividends

Profit after tax on earnings attributable to ordinary shareholders increased by £207,000 in the year ended 31 December 1998. This represents a 2.2% increase in profits per ordinary share from 35.96p to 36.74p. The board is now recommending an increased final dividend of 19.25p per ordinary share (1997: 17.5p), which together with the larger interim dividend gives a total dividend for the year of 31.0p per share. This represents an increase of 8.8% on last year's total dividend of 28.5p. After a careful review of the latest tax changes, the board has decided to pay the final dividend on 1 April 1999. In order to provide both the maximum benefit to our shareholders and to minimise the Group's tax burden the proposed final dividend will be comprised of a fully franked payment of 15.75p per share and a foreign income dividend of 3.50p per share.

### Assets

Net assets per share increased from 999.0p at 31 December 1997 to 1071.1p at 31 December 1998. This is an increase of 7.2% and compares with our benchmark of the FT-SE Actuaries All Share Index which increased by 10.9% over the same period. Whilst the portfolio performed well in the far east and Japan and nearly matched the Index in the UK, performance in North America was, in marked contrast to recent years, almost static. This is explained in detail in the investment management review. I am, however, glad to be able to tell you that our overall performance in the final quarter of 1998 was slightly ahead of our benchmark.

### Prospects

The trustee services business has had another good year and continues to contribute a growing proportion of profits. Different parts of our trustee services business have peak periods at different points of the economic cycle and this affords us some protection against volatile market conditions. Total income has, therefore, grown steadily. We recognise that changes in the competitive environment and external factors such as the introduction of the euro will continue to require us to adopt a flexible approach but at the same time present us with new market opportunities.

For the investment trust portion of the business we remain committed to the maintenance of a quality portfolio, which will add value over the long term and provide an above average income stream. The corporation tax changes in 1999 continue to influence greatly the quantum and type of dividend receipts in the short term, while further into the future, the trend towards buy-backs may be at the expense of dividends. While this should not be overestimated, Law Debenture with its trustee services income is especially well placed to maintain a policy of dividend growth.

## Chairman's statement continued

### Total return and share price

In the year to 31 December 1998, the total return amounted to £24,192,000. Whilst this was a lower return than the record increase achieved in 1997 it represents a return of 103.8p per share for the year. 1998 was a difficult year for investment trusts with premiums narrowing and discounts rising and your company was not immune from this with a particularly disappointing share price performance despite both the return achieved in the year and our strong record of dividend growth within the international general sector.

### Board membership

I am pleased to welcome Douglas McDougall who joined the board as a non-executive director in October 1998. He retires as joint senior partner of Baillie Gifford in April and is chairman of IMRO. He is a most valuable addition to the Board. He, together with Kenneth Inglis and Robert Williams, who retire by rotation, come up for re-election at the Annual General Meeting and I enthusiastically support their re-election.

### Staff

Our staff are to be congratulated on maintaining growth and profitability in the trustee businesses during 1998. Our confidence in the future is reflected in a modest net recruitment so that we can both continue the high levels of service offered and seek further opportunities for growth.

### Changes to Articles of Association

The Department of Trade and Industry ("DTI") has issued a consultation paper on the use of realised capital gains by investment trusts for the repurchase of their own shares. It is expected that the DTI's proposals will be in their final form and implemented by the end of the summer. At that time your board intends to convene an Extraordinary General Meeting to propose such amendments to the Articles of the Corporation as are necessary to enable us to buy back our own shares out of realised capital gains and to seek the powers to do so. At the same time it will also propose other minor changes to the Articles of Association to bring them into line with the current Stock Exchange requirements.

### Individual Savings Account

The Corporation intends to offer an ISA product for new and existing shareholders. Details will be made available as soon as the specification is finalised.



**J. M. Kennedy**

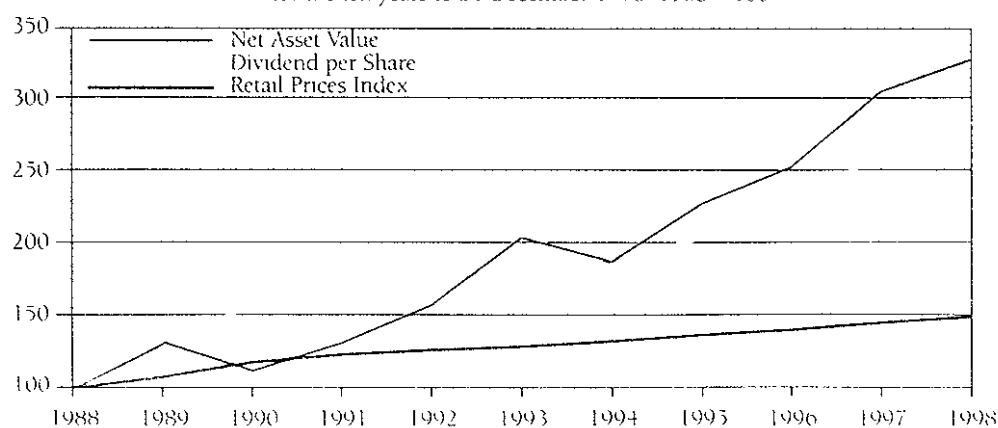
Chairman

2 March 1999

## Ten year record and chart

Year to 31 December	Group Revenue £000	Revenue return including profit on ordinary activities after taxation £000	Revenue return per share p	Net dividend per share p	Year end net asset value per share p	Share price at year end p
1989 .....	8,035	3,514	15.4	13.50	428.7	385
1990 .....	9,222	4,006	17.6	16.00	363.4	336
1991 .....	10,191	4,304	18.9	17.50	426.3	433
1992 .....	11,302	4,566	20.1	18.25	514.0	549
1993 .....	11,725	4,982	21.9	19.25	667.3	823
1994 .....	12,592	5,338	23.5	20.50	613.5	731
1995 .....	14,234	6,090	26.8	22.25	744.3	942
1996 .....	15,991	7,602	33.0	25.00	821.9	931
1997 .....	17,148	8,367	36.0	28.50	999.0	1110
1998 .....	<b>17,662</b>	<b>8,574</b>	<b>36.7</b>	<b>31.00</b>	<b>1071.1</b>	<b>1071.5</b>

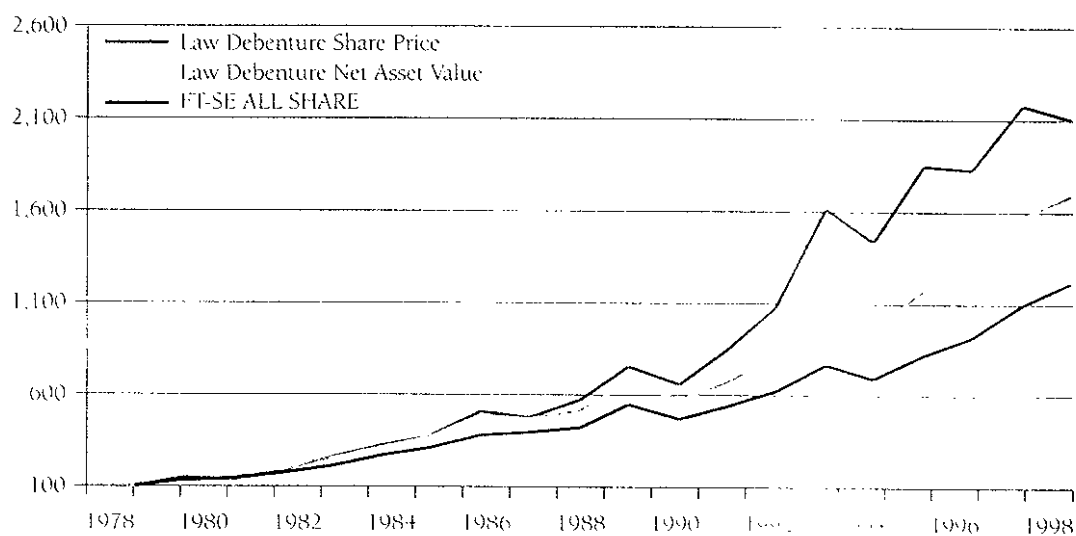
Ten year performance  
for the ten years to 31 December 1998 1988 = 100



## Performance graphs

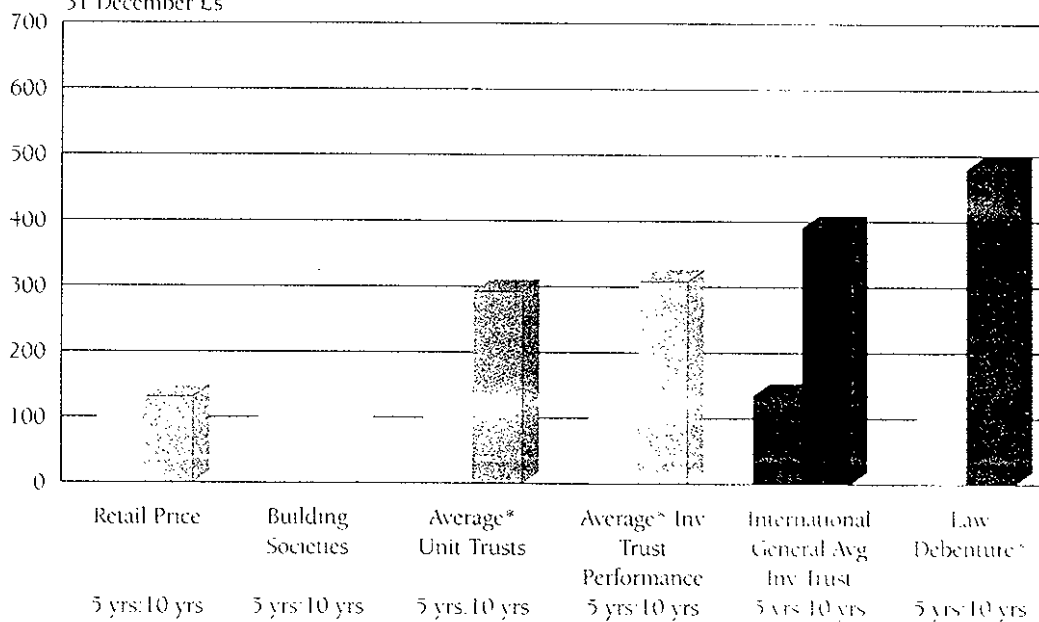
### Growth in share price and net asset value

for the twenty years to 31 December 1998 1978 = 100



### Value of £100 with net income reinvested over 5 years and 10 years

31 December £s



\* Share price total return (Total return assumes net dividends are re-invested and excludes transaction costs)

## Financial review

### Results

1997 was an exceptionally good year and a difficult one to follow. Income in 1998 increased by 3%. This more modest increase was attributable to a sharp decline in the rate of dividend increases. Trustee income also rose and continued the trend of increasing its overall share of group income.

The value of the investment portfolio increased by 7.1% to give net assets of £249.9 million, a record year end figure.

### Financial management

The Group continues to borrow through fixed term yen loans in order to hedge its Japanese portfolio. During the year, a decision was taken to remove the small partial hedge of our US portfolio and loans aggregating US\$5 million were repaid. The possibility of taking out further long-term debt as interest rates continue to decline is being considered.

In addition overdraft financing is used to fund certain trustee expenses prior to their reimbursement.

### Investment management costs

The total investment management and administration costs borne by the investment trust portion of our business continued to be tightly controlled in 1998 and amounted to 0.44% p.a. (1997: 0.41% p.a.) of the value of the portfolio. This increase is mainly attributable to the rise negotiated in 1997 in the rate of fee from 0.20% to 0.225% charged on the value of the portfolio at each quarter end.

### Year 2000 Compliance

We have completed both the review and testing of all our hardware and software systems to ensure as far as possible that they are all millennium compliant. In addition, we continue to monitor the progress of all our principal service providers to ensure as far as possible that they will not cause us any indirect problems. It is interesting to note that, since our trustee business is so long term in nature, we have always used four digits for bond dates in our internal database.

As a result of our policy of continual systems upgrade, there have been no material extra costs incurred in our Year 2000 compliance programme.

### Euro

Since our business is primarily conducted in the London markets and our fees and expenses are largely denominated in sterling, there have been few direct currency implications arising from the euro's introduction earlier this year. Our accounting systems can, however, cater for multi-currency transactions including euros.

## Investment management review

### Economic Review

1998 has been a difficult and volatile year for most value managers. The year started well with signs of currency stability beginning to return to some of the far east economies. Investors in the west became acclimatised to the distant problems of Japan and the far east and tended to focus on the more positive aspects of prolonged growth with low inflation, partly as a result of ever lower commodity prices. However, economic problems were not confined to the far east, as the crisis in Russia and the rescue of the world's largest hedge fund threatened the stability of the world's banking system. Swift action in cutting interest rates by the Federal Reserve followed by the UK and Europe brought about a rapid recovery in confidence and most of the first half gains which were relinquished during the financial crisis in the third quarter were re-established in the fourth quarter.

In the major equity markets there was a general flight to quality and liquidity leading to outstanding performance being limited to a select number of large global growth companies, especially in two sectors which have seen considerable consolidation, namely telecommunications and pharmaceuticals. This is partly reflected in our own portfolio which has 6 such companies in our top 20 holdings (shown on page 9) and by the fact that our top 20 investments represent 33.7% of the total value in 1998 compared with 29.3% last year.

Major movements in currencies were mostly confined to Japan, the far east and countries dependent upon the export of natural resources. Sterling declined by 4.5% against its trade-weighted basket of currencies with very little movement against the US dollar but the euro-bloc currencies managed to appreciate by around 6.5% in the second half of our financial year.

Our investment manager has been less active in the portfolio with purchases and sales evenly matched, both in total and within each geographical region. Given our stated aims of maintaining a quality portfolio of companies with long-term value, high turnover during the volatile second half of 1998 was not deemed appropriate.

Given the UK residence of virtually all our shareholders, we retain both the predominant portion of the portfolio in the UK and continue to use the FT-SE Actuaries All Share Index as the prime benchmark. Any diversification from the UK has to be justified in terms of adding value to an equivalent UK return, which takes into account our policy of selective currency hedging of investments not denominated in sterling.

In order to understand better the relative performance of our portfolio, we discuss each geographical region overleaf.



## Investment management review continued

### UK

The polarisation of the UK market is illustrated by the fact that although the All-Share Index rose by 10.9%, only 11 of the 35 sectors actually outperformed the Index. The rise in the market was heavily dependent on two sectors, telecommunications and pharmaceuticals. Considering the widely diversified nature of our portfolio, it was always going to be a difficult year to outperform. Analysis of our top 20 holdings detailed opposite, shows that the top 10 were all UK stocks.

### USA

Fuelled by an impressive growth rate, falling interest rates and a decline in the personal savings rate, the increase of the headline S & P 500 Index was again remarkable at 25.3% in sterling terms. This headline rate is misleading in that just 30 of the 500 stocks accounted for 70% of the rise, principally very large growth stocks with a technology bias. Increasingly, commentators are warning that some market valuations are unsustainable.

Our US portfolio suffered considerably both from under-representation in these high growth stocks, which have minimal if any yields and some more general under-performing investments. However, given the tone of the US market, our investment manager expects that our more cautious stance will be advantageous going forward.

### Europe

The FTA Europe (excluding UK) Index increased by 29.3% in sterling terms. Relative performance in the 15 constituent countries was very mixed with the Nordic countries in particular having a difficult year and the Mediterranean economies and Ireland among the best performers. Our performance provided a gain satisfactory in absolute terms of 22.9%, but failed to match the index due to the absence of holdings in Italy, Spain and Portugal.

It will be interesting to note in what way the indices will perform in the medium and long term following the introduction of the euro. Some extra degree of market polarisation may ensue as a result.

### Rest of World

Our small Japanese portfolio continued to outperform the market, especially in the latter half of the year. As the portfolio is fully hedged by yen loans, we did not benefit from the sharp rally in the yen during the final quarter of 1998. Our other investments are in Australia, Hong Kong and Singapore and have performed adequately during the year.

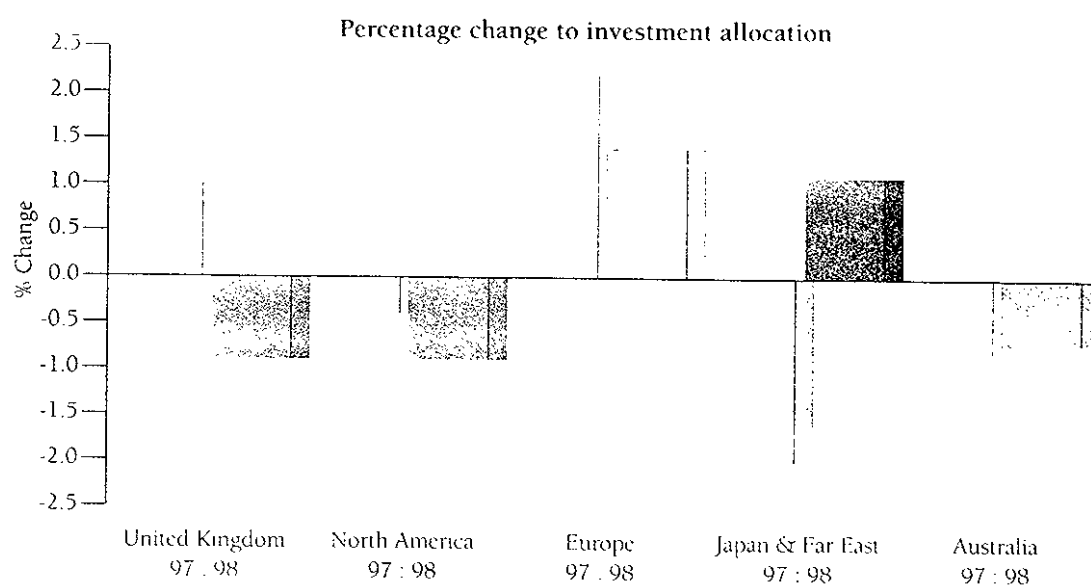
## Top 20 holdings by value

Rank	Company	Value £000	% of portfolio	1997	
				% of portfolio	Rank
1.	British Telecommunications	9,055	3.69	2.09	4
2.	Glaxo Wellcome	8,686	3.54	2.64	2
3.	BP Amoco	5,924	2.41	2.09	3
4.	Shell	5,539	2.26	2.76	1
5.	Lloyds TSB	5,130	2.09	2.06	5
6.	SmithKline Beecham	4,536	1.85	1.47	7
7.	NatWest	3,825	1.56	1.41	11
8.	Diageo	3,762	1.53	1.59	9
9.	HSBC	3,727	1.52	1.64	6
10.	Railtrack	3,613	1.47	1.01	17
11.	Elf Aquitaine	3,545	1.44	1.57	8
12.	Nestlé	3,267	1.33	1.07	14
13.	Royal Bank of Scotland	3,072	1.25	0.88	24
14.	Novartis	3,072	1.25	1.12	12
15.	Prudential	2,995	1.22	1.09	13
16.	Barclays	2,981	1.21	1.41	10
17.	Zeneca	2,617	1.07	0.93	23
18.	Bayer	2,524	1.03	0.98	20
19.	Bank of Scotland	2,510	1.02	1.03	16
20.	Tele Danmark	2,434	0.99	0.49	107
			<u>33.73</u>	<u>29.33</u>	

## Changes in investments

	Valuation 31 Dec 1997 £'000	Purchases £'000	Sales Proceeds £'000	Appreciation/ (Depreciation) £'000	Valuation 31 Dec 1998 £'000
United Kingdom .....	156,900	15,174	(15,574)	9,331	165,831
North America .....	33,507	6,688	(6,515)	(120)	33,560
Europe .....	25,370	190	(256)	5,240	30,544
Japan & Far East .....	9,007	1,381	-	2,042	12,430
Australia .....	4,400	-	(1,173)	(244)	2,983
	<u>229,184</u>	<u>23,433</u>	<u>(23,518)</u>	<u>16,249</u>	<u>245,348</u>

## % change to investment allocation



## Valuation of investments

(Holdings valued over £100,000 as at 31 December 1998)

The 147 (1997: 143) investments shown below represent 99.8% (1997: 99.9%) of the value of the Group's investment portfolio at 31 December 1998. Investments were held in 164 different companies (1997: 156).

Resources	£'000	%		£'000	%
<b>Extractive industries</b>			<b>Cookson</b> .....	884	0.36
Rio Tinto .....	1,049	0.43	<b>BTR</b> .....	694	0.28
Billiton .....	954	0.39	<b>Engineering, vehicles</b>		
Broken Hill (Aust) .....	753	0.31	GKN.....	1,595	0.65
English China Clays .....	728	0.30	Snap On (USA) .....	837	0.34
<b>Oil integrated</b>			Pep Boys (USA) .....	754	0.31
BP Amoco .....	5,924	2.41	<b>Paper, packaging &amp; printing</b>		
Shell T & T .....	5,539	2.26	Kimberly-Clark (USA) .....	1,376	0.56
Elf Aquitaine (Fra) .....	3,545	1.44	David S. Smith .....	636	0.26
Mobil (USA) .....	1,676	0.68	De La Rue .....	434	0.18
Atlantic Richfield (USA) .....	1,139	0.46	<b>Consumer goods</b>		
<b>Oil exploration &amp; production</b>			<b>Alcoholic beverages</b>		
Schlumberger (USA) .....	780	0.32	Diageo .....	3,762	1.53
Enterprise Oil .....	649	0.26	Allied Domecq .....	1,553	0.63
<b>General industrials</b>			<b>Food producers</b>		
<b>Buildings materials &amp; merchants</b>			Nestlé (Switz) .....	3,267	1.33
Wolseley.....	1,406	0.57	Cadbury Schweppes.....	2,050	0.84
Blue Circle .....	1,395	0.57	Unigate.....	1,339	0.55
<b>Chemicals</b>			United Biscuits.....	710	0.29
Bayer (Ger) .....	2,524	1.03	Booker.....	267	0.11
Fuji Photo Film (Japan) .....	1,253	0.51	Albert Fisher.....	110	0.04
BOC .....	1,031	0.42	<b>Household goods &amp; textiles</b>		
I.C.I. ....	729	0.30	Reckitt & Colman .....	1,353	0.55
Orica (Aust) .....	689	0.28	Readicut .....	452	0.18
Elementis .....	401	0.16	<b>Health care</b>		
<b>Diversified industrials</b>			Baxter International (USA) .....	1,778	0.72
Harsco (USA) .....	1,098	0.45	Pall (USA) .....	1,369	0.56
Swire Pacific (HK) .....	599	0.24	Smith & Nephew .....	1,253	0.51
<b>Electronic &amp; electrical equipment</b>			<b>Pharmaceuticals</b>		
Xerox (USA) .....	2,128	0.87	Glaxo Wellcome.....	8,686	3.54
Philips Elec (Neth) .....	2,018	0.82	SmithKline Beecham .....	4,536	1.85
General Electric .....	1,953	0.80	Novartis (Switz) .....	3,072	1.25
Siemens A.G. (Ger).....	1,857	0.76	Zeneca .....	2,617	1.07
W.W. Grainger (USA) .....	1,151	0.47	American Home (USA) .....	1,830	0.75
AVX (USA) .....	916	0.37	Pharmacia & Upjohn (Swed) .....	1,683	0.69
Kyocera (Japan) .....	795	0.32	<b>Tobacco</b>		
Hitachi (Japan) .....	746	0.30	Philip Morris (USA) .....	1,801	0.73
GoldPeak Ind (HK) .....	572	0.23	Gallaher .....	1,793	0.73
BICC .....	212	0.09	British American Tobacco .....	1,268	0.52
<b>Engineering</b>			<b>Services</b>		
Illinois Toolworks (USA) .....	1,882	0.77	<b>Leisure &amp; hotels</b>		
Rolls Royce .....	1,643	0.67	Granada.....	1,806	0.74
British Aerospace .....	1,630	0.66	Thomson Travel.....	1,320	0.54
Tomkins .....	1,276	0.52	Ladbroke .....	1,256	0.51
TT Group .....	1,003	0.41	Patriot American (USA) .....	252	0.10
Glynwed .....	996	0.41			
Morgan Crucible .....	916	0.37			

## Valuation of investments continued

	£'000	%		£'000	%
Media			Gas distribution		
Reuters .....	1,325	0.54	BG .....	1,782	0.73
Reed International .....	1,222	0.50	Water		
United News & Media .....	1,107	0.45	Anglian .....	1,898	0.77
EMI .....	651	0.27	Hyder .....	758	0.31
Retailers, food			Financials		
Tesco .....	1,644	0.67	Banks, retail		
Supervalu (USA) .....	1,447	0.59	Lloyds TSB .....	5,130	2.09
J. Sainsbury .....	1,445	0.59	NatWest .....	3,825	1.56
Safeway .....	1,208	0.49	HSBC .....	3,727	1.52
Retailers, general			Royal Bank of Scotland .....	3,072	1.25
Boots .....	2,047	0.83	Barclays .....	2,981	1.21
G.U.S. ....	1,520	0.62	Bank of Scotland .....	2,510	1.02
Marks & Spencer .....	1,484	0.60	ABN Amro (Neth) .....	2,328	0.95
W.H. Smith .....	1,210	0.49	UBS (Switz) .....	2,216	0.90
JC Penney (USA) .....	1,014	0.41	Dexia France (Fra) .....	1,853	0.76
Sears Holdings .....	286	0.12	National Australia Bank (Aust) .....	1,542	0.63
Selfridges .....	242	0.10	Standard Chartered .....	1,532	0.62
Telecommunications			Citigroup (USA) .....	1,493	0.61
British Telecom .....	9,055	3.69	Northern Rock .....	1,405	0.57
Tele Danmark (Den) .....	2,434	0.99	Société Générale (Fra) .....	1,266	0.52
Cable & Wireless .....	2,217	0.90	Deutsche Bank (Ger) .....	854	0.35
Breweries, pubs & restaurants			Insurance		
Anheuser-Busch (USA) .....	1,972	0.80	Allied Zurich .....	2,152	0.88
Bass .....	1,925	0.78	CGU .....	1,882	0.77
Scottish & Newcastle .....	1,466	0.60	HSB (USA) .....	1,555	0.63
Support services			Royal & Sun Alliance .....	1,472	0.60
Rentokil Initial .....	1,948	0.79	GRE .....	1,346	0.55
Service Int (USA) .....	1,693	0.69	Life assurance		
Secom (Japan) .....	1,496	0.61	Prudential .....	2,995	1.22
Shared Medical (USA) .....	1,319	0.54	Britannic Assurance .....	1,700	0.69
Williams .....	1,181	0.48	National Mutual Asia (HK) .....	1,035	0.42
Leach International (USA) .....	216	0.09	Other financial		
Transport			E.D. & F. Man .....	2,287	0.93
Railtrack .....	3,613	1.47	Takefuji (Japan) .....	1,407	0.57
BAA .....	1,684	0.69	Gerrard Group .....	1,306	0.53
Ocean Group .....	1,568	0.64	Property		
P & O .....	1,208	0.49	Land Securities .....	1,703	0.69
Powell Duffryn .....	980	0.40	Unibail (Fra) .....	1,578	0.64
Laidlaw (USA) .....	968	0.39	Slough Estates .....	1,502	0.61
Transport Development .....	966	0.39	DBS Land (Sing) .....	1,239	0.51
Utilities			Arden Realty (USA) .....	1,115	0.45
Electricity			New World Dev (HK) .....	514	0.21
Scottish & Southern Energy .....	2,031	0.83	Investment trusts		
National Grid .....	1,823	0.74	Wigmore Property .....	931	0.38
Powergen .....	1,422	0.58	Under £100,000 .....	460	0.19
Scottish Power .....	1,235	0.50			
National Power .....	777	0.32			

# Classification of investments

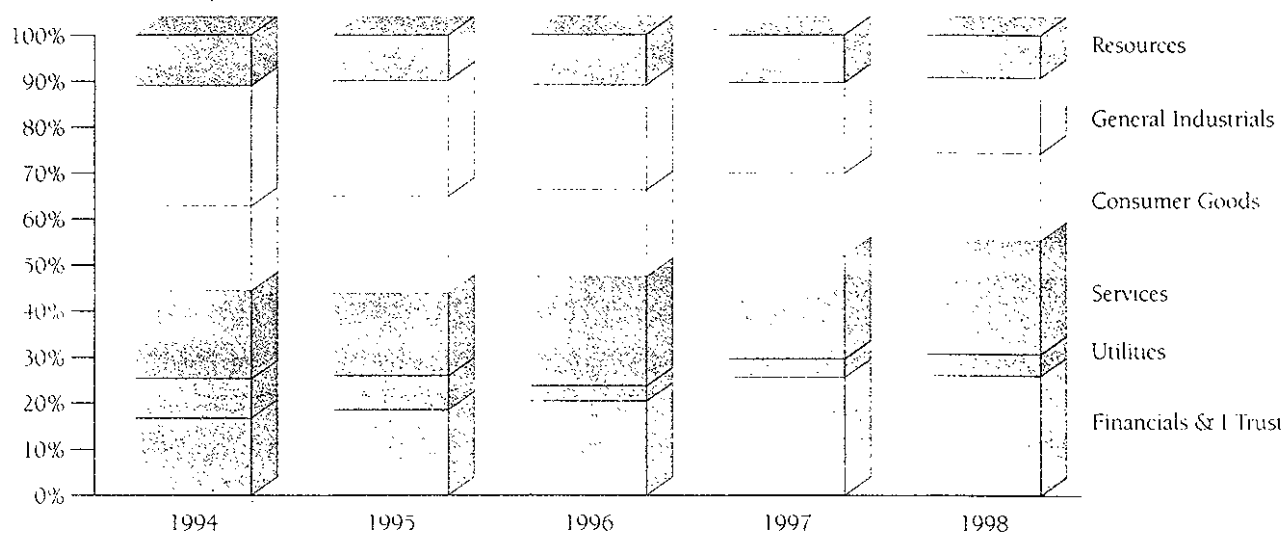
based on market values at 31 December 1998

	United Kingdom %	North America %	Europe %	Japan & Far East %	Australia %	Total 1998 £000	1998 %	1997 £000	1997 %
<b>Resources</b>									
Extractive industries .....	1.12				0.31	3,484	1.43	3,839	1.68
Oil integrated .....	4.67	1.14	1.44			17,822	7.25	17,433	7.63
Oil exploration & production .....	0.28	0.32				1,478	0.60	1,580	0.69
	<u>6.07</u>	<u>1.46</u>	<u>1.44</u>		<u>0.31</u>	<u>22,784</u>	<u>9.28</u>	<u>23,002</u>	<u>9.99</u>
<b>General Industrials</b>									
Building mats & merchants .....	1.14					2,801	1.14	3,000	1.27
Chemicals .....	0.88		1.03	0.51	0.28	6,628	2.70	6,628	2.70
Diversified industrials .....		0.45		0.24		1,698	0.69	1,698	0.69
Electronic & elect equip .....	0.89	1.71	1.58	0.85		12,347	5.03	12,347	5.03
Engineering .....	3.68	0.77				10,926	4.45	10,926	4.45
Engineering – vehicles .....	0.65	0.65				3,186	1.30	3,186	1.30
Printing paper & packaging .....	0.44	0.56				2,445	1.00	2,445	1.00
	<u>7.68</u>	<u>4.14</u>	<u>2.61</u>	<u>1.60</u>	<u>0.28</u>	<u>40,031</u>	<u>16.31</u>	<u>40,031</u>	<u>16.31</u>
<b>Consumer goods</b>									
Alcoholic beverages .....	2.16					5,315	2.16	5,315	2.16
Food producers .....	1.83		1.33			7,742	3.16	7,742	3.16
Household goods and textiles .....	0.73					1,805	0.73	1,805	0.73
Health care .....	0.51	1.28				4,400	1.79	4,400	1.79
Pharmaceuticals .....	6.46	0.75	1.94			22,424	9.15	22,424	9.15
Tobacco .....	1.25	0.73				4,862	1.98	4,862	1.98
	<u>12.94</u>	<u>2.76</u>	<u>3.27</u>			<u>46,548</u>	<u>18.97</u>	<u>46,548</u>	<u>18.97</u>
<b>Services</b>									
Leisure & hotels .....	1.79	0.10				4,634	1.89	4,634	1.89
Media .....	1.76					4,305	1.76	4,305	1.76
Retailers food .....	1.74	0.59				5,744	2.33	5,744	2.33
Retailers general .....	2.76	0.41				7,803	3.17	7,803	3.17
Telecommunications .....	4.59		0.99			13,706	5.58	13,706	5.58
Breweries, pubs & restaurants .....	1.38	0.80				5,363	2.18	5,363	2.18
Support services .....	1.27	1.32		0.61		7,854	3.20	7,854	3.20
Transport .....	4.08	0.39				10,986	4.47	10,986	4.47
	<u>19.37</u>	<u>3.61</u>	<u>0.99</u>	<u>0.61</u>		<u>60,395</u>	<u>24.58</u>	<u>60,395</u>	<u>24.58</u>
<b>Utilities</b>									
Electricity .....	2.97					7,288	2.97	7,288	2.97
Gas distribution .....	0.73					1,782	0.73	1,782	0.73
Water .....	1.08					2,656	1.08	2,656	1.08
	<u>4.78</u>					<u>11,726</u>	<u>4.78</u>	<u>11,726</u>	<u>4.78</u>
<b>Financials</b>									
Banks (Retail) .....	8.80	0.61	3.48	1.09	0.63	35,817	14.61	32,681	13.28
Insurance .....	2.80	0.63				8,407	3.43	7,661	3.11
Life assurance .....	1.91			0.42		5,730	2.33	6,465	2.62
Other financial .....	1.50		0.02	0.61		5,154	2.13	3,778	1.53
Property .....	1.30	0.45	0.64	0.75		7,720	3.14	6,749	2.73
	<u>16.31</u>	<u>1.69</u>	<u>4.14</u>	<u>2.87</u>	<u>0.63</u>	<u>62,828</u>	<u>25.64</u>	<u>57,334</u>	<u>23.24</u>
<b>Investment trusts</b>	0.40			0.04		1,036	0.44	1,288	0.52
<b>Total 1998</b> .....	<u>67.55</u>	<u>13.66</u>	<u>12.45</u>	<u>5.12</u>	<u>1.22</u>	<u>245,348</u>	<u>100.00</u>		
<b>Total 1997</b> .....	<u>67.55</u>	<u>13.66</u>	<u>12.45</u>	<u>5.12</u>	<u>1.22</u>			<u>231,184</u>	<u>100.00</u>

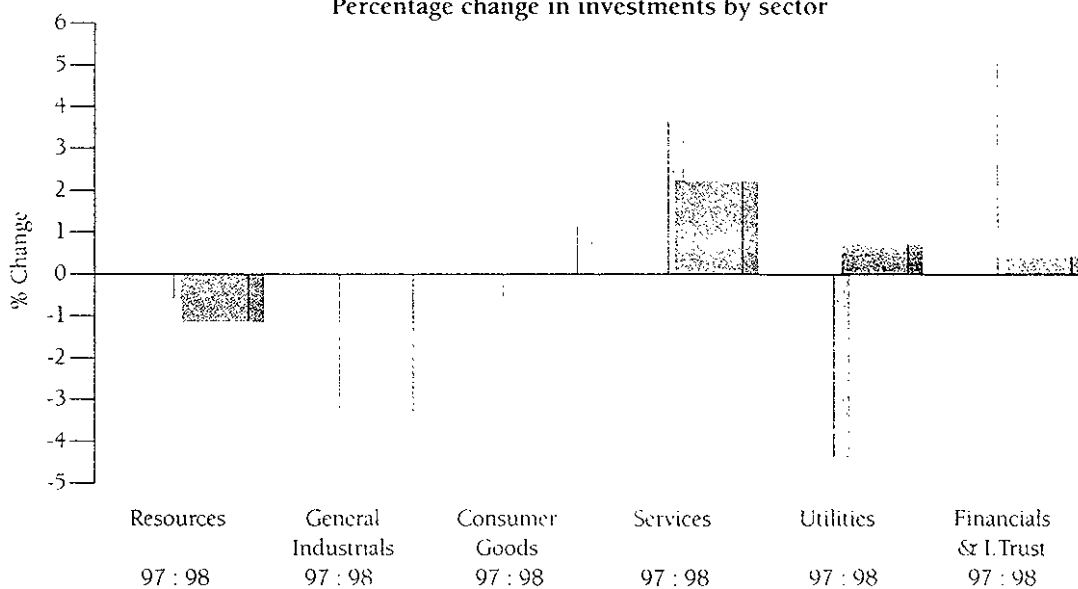
(The above table excludes bank balances and short term deposits.)

## Investment changes by sector

Changes in investments portfolio by sector 1994 – 1998



Percentage change in investments by sector



## Operating Review - Trustee Services

Trustee services had another good year reporting record income. Profits also reached a record level and are now growing somewhat faster than our income from dividends. Staff numbers have been increased to handle the growing volume of business and ensure that we will continue to have the necessary skills to handle the increasingly complex nature of the business we are undertaking.

### Pensions

It has become clear that the work required for pension schemes to comply with the changes introduced by the 1995 Pensions Act is both onerous and recurring, rather than providing us with a one-time upsurge in business. The recognition by employers that the financial and reputational risks of non-compliance necessitate a more professional approach to the direction of pension schemes has also contributed to our increase in business. This important development has enlarged our market and during 1998 we took on twenty new schemes, all of which were active rather than related to insolvencies. This is very encouraging as it represents an income source of longer expected duration. The completion of our existing work on insolvency schemes has also required more time than originally anticipated.

Our client base continues to grow and includes four of the world's largest corporations and 19 of the current constituents of the FTSE 100 Index. We continue to review the nature of the service we provide to company pension schemes, and the way we market it, to ensure that we adapt to changes in the pensions environment and maintain our position as the leading professional trustee of pension schemes.

The growing importance and complications of company pension schemes call for a more professional approach to their governance. This gives us confidence in the merits of the service we provide, the quality of its revenue and the future demand for it.

### Loan Capital Trusteeships

Despite the economic uncertainties in the final quarter of 1997, 1998 got off to a surprisingly good start with levels of new business comparable to those of the first half of 1997. This was brought to a halt in the third quarter by the crisis in the far east and the emerging difficulties in Russia. Amongst the new trusteeships we accepted were those for National Grid, Hyder, Railtrack and United Utilities as well as the European Bank for Reconstruction and Development.

We opened an office in Hong Kong in February 1998 and it has since been kept extremely busy. In conjunction with London based staff and working on behalf of bondholders in circumstances where issuers have encountered difficulties in Thailand, Hong Kong, Indonesia and Malaysia, our Hong Kong staff have represented us at numerous creditors' meetings throughout the region. In addition, we took on a number of delegated trusteeships in the south east Asia region from other trustees who had conflicts of interest. This has given us a real opportunity to demonstrate to both borrowers and investors the value an independent trustee can offer in such circumstances and has raised the profile of the new Hong Kong office.



## Operating review - trustee services continued

The outstanding claim on the Russian Companies for compensation has now been agreed with the liquidator and it is hoped that a distribution will be possible in 1999. The Barings situation remains unresolved - holders of the 1986 bonds rejected a settlement proposal of the City Disputes Panel and the litigation continues.

### Securitisation and Repackagings

In contrast, activity in the securitisation and repackaging areas was substantially increased over 1997 and continues at a strong pace, reflecting the constant desire of businesses to find innovative ways of managing their balance sheets in a cost effective manner. An example of work undertaken includes the first securitisation of local authority obligations, where the funds raised re-financed the construction of a waste-to-energy plant in Tyseley, Birmingham. In addition we have been appointed on a number of technically innovative transactions including work for The Royal Bank of Scotland, Citibank and Bayerische Landesbank.

### Medium Term Note Programmes

These continued to be popular with banks and companies seeking a cheap and flexible way to raise funds. During the year we had a number of new appointments including Allied Domecq, Bass, BAT Industries and BP Amoco.

### Project Finance

Our involvement as a trustee in project financings continued to expand during the year and we believe this will be a promising source of new business.

### Future Prospects

The financial markets continue to become more global and the participants, whether bankers or advisers, are merging into fewer and bigger groups. We believe the need for the independent trustee is greater than ever before. We will continue to seek further opportunities to extend our international presence and

- maintain our status as the leading independent trustee;
- offer a quality of service focused on market needs; and
- provide ancillary services that add value to transactions.

## Directors and other information

**J. M. Kennedy** (Chairman) (64). A director of Amlin plc. Chairman of the audit and remuneration committees.

**\*C. C. B. Duffett** (Managing) (55). Appointed managing director in April 1988. Deputy chairman of the AITC.

**R. L. Bristow** (69). A former executive director of Credit Suisse First Boston Limited. Member of the audit and remuneration committees.

**J. Edwards** (57). A former partner of Linklaters & Paines and a director of an investment trust.

**†K. W. B. Inglis** (55). Chairman of Fleming Investment Management Limited and a director of a number of other investment management companies. Member of the audit committee.

**E. C. S Macpherson** (57). Chief executive of 3i Group plc until July 1997. Non-executive director of a number of other listed companies. Member of the remuneration committee.

**D. C. P McDougall** (54). Joint senior partner of Baillie Gifford & Co. and Chairman of IMRO. A director of two other investment trusts and a former chairman of the AITC.

**\*R. J. Williams** (50). A director of a number of investment trusts.

\*Executive

†Senior non-executive director

*Secretary*  
**Peter Skeggs**

### **Registered office**

Princes House, 95 Gresham Street  
London EC2V 7LY

Telephone: 0171 606 5451

Fax: 0171 606 0643

(Registered in England and Wales number 30397)

### **Investment portfolio manager**

Henderson Investors Limited

3 Finsbury Avenue

London EC2M 2PA

### **Stockbrokers**

Cazenove & Co.

12 Tokenhouse Yard

London EC2R 7AN

### **Auditors**

PricewaterhouseCoopers

Southwark Towers

32 London Bridge Street

London SE1 9SY

### **Bankers**

Lloyds Bank Plc

National Westminster Bank plc

The Royal Bank of Scotland plc

### **Global custodians**

RBS Trust Bank Ltd

### **Registrar and transfer office**

Computershare Services PLC

Registrar's Department

PO Box 82, Caxton House

Redcliffe Way, Bristol BS99 7NH

Telephone: 0117 930 6666

IMRO

Regulated by the Investment Management  
Regulatory Organisation Limited



A member of the Association of  
Investment Trust Companies

## Report of the directors

The directors present to the shareholders their report and the accounts of the Corporation and the Group (the Corporation and its subsidiaries) for the year ended 31 December 1998.

### Principal activities and business review

The Corporation carries on business as an investment trust company. The Corporation and certain of its subsidiaries are also trust corporations and act as trustees for securities issues in the international capital markets and other instruments issued by domestic and foreign issuers and for project financings, as well as acting as independent trustees of pension funds. Other related services are also provided, including cash management, escrow agency and acting as agent for the service of process.

Business activities are reviewed in the chairman's statement and the management and operating reviews.

### Investments

A review and analysis of our holdings and changes to the portfolio by industry classification and geographical region are shown on pages 7 to 14. Included in the investment management review on page 9 is a table showing the top 20 investments by value at 31 December 1998; the complete list of investments with a market value in excess of £100,000 at 31 December 1998 is shown on pages 11 and 12.

### Revenue and dividends

The revenue return, including profit after taxation for the year ended 31 December 1998 was £8,561,000 compared with £8,354,000 for the previous year. The directors recommend a final dividend of 19.25p per ordinary share which, together with the interim dividend of 11.75p paid in October 1998, will make 31.0p in total (1997: 28.5p). An amount of £1,330,000 (1997: £1,716,000) has been transferred to consolidated revenue reserves after deducting ordinary dividends of £7,231,000 (1997: £6,638,000) and preference dividends of £13,000 (1997: £13,000).

### Directors

The names of the directors at the date of this report are shown on page 10. Mr J.A.Morrell and Mr H.D.Osborne retired at the last annual general meeting on 21st April 1998. All other directors held office throughout the year, except Mr E.C.S. Macpherson, who was appointed on 17 February 1998 and Mr D.C.P. McDougall, who was appointed on 21 October 1998. In accordance with the articles of association, Mr K.W.B. Inglis, Mr D.C.P. McDougall and Mr R.J. Williams retire at the annual general meeting and offer themselves for re-election.

No director has a service contract with any member of the Group in excess of one year or was materially interested in any other contract with any member of the Group. The board considers that all non-executive directors are independent.

During the year, the Corporation maintained liability insurance for the benefit of directors and other officers.

## Report of the directors continued

### Directors' shareholdings

Beneficial interests in ordinary shares as at:

<u>Name of director</u>	<u>31 December 1998</u>	<u>1 January 1998*</u>
R.L. Bristow .....	1,000	1,000
C.C.B. Duffett .....	28,116	26,492
K.W.B. Inglis .....	2,500	2,500
E.C.S. Macpherson .....	3,250	3,250
R.J. Williams .....	5,551	5,377

\* or date of appointment if later

The above shareholdings include ordinary shares held on behalf of Mr C.C.B. Duffett by the trustee of The Law Debenture Profit Sharing Plan. Mr J. Edwards, Mr J.M. Kennedy and Mr D.C.P. MacDougall held no shares in the Corporation at 31st December 1998.

No director has a beneficial interest in the shares of any subsidiary company, nor in the preference shares or debenture stock issued by the Corporation.

There has been no change in the directors' interests since the end of the financial year.

### Employee participation

Employees are informed of the financial aspects of the Group's performance through periodic management meetings. Copies of the annual and interim reports are made available to all employees.

The Corporation operates a profit sharing plan which enables employees to participate in the growth of profits earned from the Group's trustee activities. The profit share is based on the change in profits of the trustee activities over a rolling two year period plus a fixed percentage of current year profits. All full time members of staff are eligible to participate in the plan after a minimum service requirement. The plan, which is approved under the Income and Corporation Taxes Act 1988, provides for employees to use their profit share to acquire shares in the Corporation bought in the market by the plan trustee.

The Corporation operates an SAYE scheme in which all full-time employees are eligible to participate in the scheme after completing a minimum service requirement. Further details are shown in note 18 to the Accounts.

The Corporation also operates an Executive Share Option Scheme which enables key executives to be granted options to acquire ordinary shares of the Corporation. The scheme is approved under the Income and Corporation Taxes Act 1988. 291,500 options were granted in the year ended 31 December 1998 at 1060.5p, the mid-market price ruling on the date of grant. Exercise of this most recent grant of options is contingent upon targets for the trustee business being achieved.

Details of SAYE and Executive Share Options outstanding are shown on pages 23 and 39.

## Report of the directors continued

### Going concern

The directors are of the view that it is appropriate to continue to adopt the going concern basis in preparing the accounts, as the assets of the Group consist mainly of securities which are readily realisable.

### Substantial holdings

The following shareholders have notified the Corporation of their interest comprising 3% or more of the Corporation's ordinary share capital as at 2 March 1999.

The Merchant Navy Officers Pension Fund .....5.5%

Merchant Investors Assurance Company .....5.1%

The board is not aware of any other substantial holdings.

### Investment management

The investment portfolio is managed by Henderson Investors Limited, a subsidiary of AMP Limited ("AMP"), who were paid a fee during the year of £543,000 (1997: £414,000) under an agreement which is terminable by either party at 12 months' notice. The fee in 1998 was 0.225% (1997: 0.2%) of the average value of the investments under management during the year.

The Corporation holds no shares in members of the AMP Group; it has been notified that funds managed by members of the AMP Group hold 138,604 shares in the Corporation.

### Charitable donations

During the year the Corporation made charitable donations of £1,094 (1997: £2,810).

### Payment of suppliers

The Corporation is committed to seeking the best terms possible for all types of business. Consequently, there is no single policy as to the terms used.

### Auditors

Our auditors, Price Waterhouse, merged with Coopers & Lybrand on 1st July 1998 and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors to the company will be proposed at the Annual General Meeting.

By order of the board

**Peter Skeggs**  
Secretary



2 March 1999

## Corporate governance

### The Board and Committees

The board of the Corporation is comprised of a majority of non-executive directors and meets regularly throughout the year. It has established Audit and Remuneration Committees with specific terms of reference. Owing to the board's size, it has not been deemed necessary to establish a Nomination Committee. Matters specifically reserved for Board decision have been defined and procedures put in place to enable independent professional advice to be taken at the Group's expense.

### Audit Committee and Internal Financial Controls

In addition to reviewing the annual and interim accounts and the scope and findings of the statutory audit process, the Audit Committee meets regularly to review the quality and effectiveness of internal financial controls of the Group. These controls are established to ensure the maintenance of proper accounting records, the reliability of the financial information upon which business decisions are made and the security of the Group's assets. The systems of internal financial control are designed to provide reasonable but not absolute assurance against material misstatement or loss.

Key features of the Group's systems of internal financial controls include:

- a regular qualitative self-assessment of the effectiveness of the individual controls maintained in the overall internal financial control framework
- preparation by management of a comprehensive and detailed budget system involving annual board approval and monthly comparison at Board level of actual results with budgets and forecasts
- systematic reporting to the Board of matters relating to insurance, pensions, taxation, accounting and cash management as well as legal, compliance and company secretarial issues
- the review of the internal controls of those services, such as investment management, custody and registration, which have been delegated to third parties, such review being conducted during the initial contractual negotiation and on an ongoing basis
- monitoring by the Board of the investment management process including the establishment and maintenance of investment guidelines, receiving a report from the investment manager in person at each Board meeting, the review of all transactions with the investment manager and regular reconciliation of the records of the Group with those of the global custodian and investment data services provider.

Current members of the Audit Committee are Mr J.M. Kennedy, Mr R.L. Bristow and Mr K.W.B. Inglis.

## Corporate governance continued

### Remuneration Committee

The constitution and operation of the Remuneration Committee are in compliance with the principles of the Combined Code. The members of the committee are Mr J.M. Kennedy, Mr R.L. Bristow and Mr E.C.S. Macpherson. In reporting to the Board, the Committee also confirms that the proper consideration has been given to the best practice provisions set out in the Stock Exchange's Listing Rules in determining remuneration packages for executive directors.

### Executive Director remuneration policy

The Remuneration Committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate executive directors of the highest calibre. The major components of such packages are:

- **Basic salary**, at a level consistent with individual performance and the market rates applicable to jobs of similar complexity and responsibility, as demonstrated by information from independent sources on the salary rates applicable
- **Profit sharing**, on the same basis as all other members of staff; this is calculated by reference to the growth of profits in the Group's trustee businesses and enables employees to take benefits in the form of shares as well as cash, thus emphasising the alignment of interest between executive directors and the Corporation's shareholders
- **Executive share options**, periodically granted and phased in over a period of years; the basis on which the exercise of options granted from 1998 onwards has changed to reflect more accurately the linkages between performance of the Group's trustee businesses, executive remuneration and shareholder interests
- **Pensions provision**, in a funded non-contributory, Inland Revenue approved, final salary, occupational pension scheme on the same basis as all other members of staff. Its main features are a normal retirement age of 60, a pension based on one forty-fifth of final basic salary for each year of service (subject to a maximum of 30 years' service), life assurance cover of four times salary and a surviving spouse's pension equal to 50% of the member's pension.

No executive director has a service contract in excess of one year.

### Directors' emoluments

Details of the total emoluments earned as directors of the Corporation and its subsidiaries during the year are set out opposite and in note 6 to the accounts. These incorporate all benefits arising from employment by the Corporation which are assessable to income tax on the individual.

## Corporate governance continued

	Basic salary or fees	Profit share	Benefits	Pensions	Total emoluments	
	£000	£000	£000	£000	1998 £000	1997 £000
<b>Executive</b>						
C.C.B. Duffett	175	19	11	36	241	227
R.J. Williams	36	4	8	-	48	47
<b>Non-executive</b>						
R.L. Bristow	20	-	-	-	20	20
J. Edwards	15	-	-	-	15	10
K.W.B. Inglis	15	-	-	-	15	8
J.M. Kennedy	30	-	-	-	30	30
E.C.S. Macpherson	14	-	-	-	14	-
D.C.P. McDougall	1	-	-	-	1	-
J.A. Morrell	5	-	-	-	5	15
H.D. Osborne	6	-	-	-	6	18
<b>Total</b>	<u>317</u>	<u>23</u>	<u>19</u>	<u>36</u>	<u>395</u>	<u>375</u>

## Directors' Options

Options are held under the Corporation's Executive Share Option Scheme (EXSOS) and Save As You Earn Scheme (SAYE) as follows:-

	Number	Exercise price p	Held at 31 Dec 97	Granted in year	Exercised in year	Held at 31 Dec 98	Exercisable	
							Earliest	Latest
<b>C.C.B. Duffett</b>								
EXSOS 94	10,000	742.0	10,000	-	-	10,000	1997	2004
EXSOS 95	10,000	813.0	10,000	-	-	10,000	1998	2005
EXSOS 98	30,000	1,060.5	-	30,000	-	30,000	2001	2008
SAYE 97	2,003	861.0	2,003	-	-	2,003	2002	
	<u>52,003</u>		<u>22,003</u>	<u>30,000</u>	<u>-</u>	<u>52,003</u>		

## R.J. Williams

SAYE 95	2,621	658	2,621	-	-	2,621	2000	
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The Corporation's share price ranged from 907.5p to 1289p during the year. The prices of options granted to directors are all lower than the mid-market price on 31 December 1998 of 1071.5p.

Further details of the Corporation's EXSOS and SAYE schemes are given on page 39.



## Corporate governance continued

### Compliance with the Code

The directors consider that during the year the Group has complied with all of the provisions of the Combined Code on corporate governance with the exception of the provisions relating to the re-election of the directors which will be changed at an Extraordinary General Meeting later in the year. It has also proved impossible to provide shareholders with 20 working days' notice of the Annual General Meeting as the date has been bought forward by a month to enable a final franked dividend to be paid this year. The statutory 21 days' notice has been complied with.



**J.M. Kennedy**

Chairman

## Directors' statement of responsibilities in relation to the accounts

The directors are required by the Companies Act 1985 to prepare financial accounts for each financial year which give a true and fair view of the state of affairs of the Corporation and the Group at the end of the financial year and of the profit or loss for the financial year.

The directors consider that, in preparing the accounts on pages 27 to 43, the Corporation has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Corporation keeps accounting records which disclose with reasonable accuracy the financial position of the Corporation and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

## Report of the auditors

We have audited the accounts on pages 27 to 43 which have been prepared under the historical cost convention and the accounting policies set out on page 30.

### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 25 the financial accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

We review whether the statement on page 24 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the group's corporate governance procedures or its internal controls.

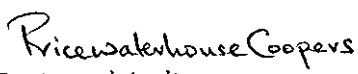
### Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Corporation and the Group at 31 December 1998 and of the total return and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers   
Chartered Accountants and Registered Auditors  
2 March 1999

# Consolidated statement of total return

for the year ended 31 December

	Notes	1998			1997		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Total capital gains from investments .....	2	-	15,631	15,631	-	39,843	39,843
Income from investments and deposits .....	3	9,566	-	9,566	9,273	-	9,273
Trustee and other fee income .....	4	8,052	-	8,052	7,832	-	7,832
Underwriting commission and other income .....		44	-	44	43	-	43
<b>Gross revenue and capital gains .....</b>		<b>17,662</b>	<b>15,631</b>	<b>33,293</b>	<b>17,148</b>	<b>39,843</b>	<b>56,991</b>
Administration expenses .....	5,6	(6,292)	-	(6,292)	(5,714)	-	(5,714)
<b>Return, including profit on ordinary activities before interest payable and taxation .....</b>		<b>11,370</b>	<b>15,631</b>	<b>27,001</b>	<b>11,434</b>	<b>39,843</b>	<b>51,277</b>
Interest payable .....	7	(522)	-	(522)	(490)	-	(490)
<b>Return, including profit on ordinary activities before taxation .....</b>	8	<b>10,848</b>	<b>15,631</b>	<b>26,479</b>	<b>10,944</b>	<b>39,843</b>	<b>50,787</b>
Taxation .....	9	(2,274)	-	(2,274)	(2,577)	-	(2,577)
<b>Return, including profit on ordinary activities after taxation .....</b>		<b>8,574</b>	<b>15,631</b>	<b>24,205</b>	<b>8,367</b>	<b>39,843</b>	<b>48,210</b>
Dividends on preference shares .....		(13)	-	(13)	(13)	-	(13)
<b>Return, including profit attributable to ordinary shareholders .....</b>		<b>8,561</b>	<b>15,631</b>	<b>24,192</b>	<b>8,354</b>	<b>39,843</b>	<b>48,197</b>
Dividends on ordinary shares .....	10	(7,231)	-	(7,231)	(6,638)	-	(6,638)
Transfer to reserves .....		1,330	15,631	16,961	1,716	39,843	41,559
<b>Return per ordinary share (pence) .....</b>	11	<b>36.74</b>	<b>67.07</b>	<b>103.81</b>	<b>35.96</b>	<b>171.52</b>	<b>207.48</b>
<b>Diluted return per ordinary share (pence) .....</b>	11	<b>36.66</b>	<b>66.93</b>	<b>103.59</b>	<b>35.90</b>	<b>171.23</b>	<b>207.13</b>

The revenue columns of this statement represent the revenue accounts of the Group.

The annexed notes form part of these accounts.

# Balance sheets

as at 31 December

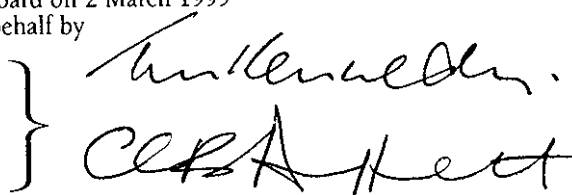
	Notes	Group		Corporation	
		1998 £'000	1997 £'000	1998 £'000	1997 £'000
<b>Fixed assets</b>					
Tangible .....	12	445	582	-	-
Investments .....	13	245,348	229,184	242,683	226,356
		<u>245,793</u>	<u>229,766</u>	<u>242,683</u>	<u>226,356</u>
<b>Current assets</b>					
Debtors .....	14	9,396	7,946	3,689	2,983
Short term cash investments .....		13,053	-	7,410	-
Bank balances and short term deposits .....		5,444	19,941	283	10,223
		<u>27,893</u>	<u>27,887</u>	<u>11,382</u>	<u>13,206</u>
<b>Creditors</b>					
Amounts falling due within one year .....	15	(17,145)	(21,108)	(12,701)	(16,659)
<b>Net current assets/(liabilities)</b> .....		<u>10,748</u>	<u>6,779</u>	<u>(1,319)</u>	<u>(3,453)</u>
<b>Total assets less current liabilities</b> .....		256,541	236,545	241,364	222,903
<b>Creditors</b>					
Amounts falling due after more than one year .....	16	(6,014)	(3,120)	(2,489)	(355)
Provision for liabilities and charges .....	17	(324)	(461)	-	-
<b>Net assets</b> .....		<u>250,203</u>	<u>232,964</u>	<u>238,875</u>	<u>222,548</u>
<b>Capital and reserves</b>					
Called-up share capital					
Preference shares .....	18	350	350	350	350
Ordinary shares .....	18	5,832	5,821	5,832	5,821
Share premium account .....	19	5,253	4,986	5,253	4,986
Capital reserves - realised .....	20	127,380	118,186	127,592	118,397
- unrealised .....	20	98,620	92,183	96,371	89,813
Revenue reserves .....	21	12,768	11,438	3,477	3,181
<b>Shareholders' funds</b> .....	25	<u>250,203</u>	<u>232,964</u>	<u>238,875</u>	<u>222,548</u>

(including non equity interests)

Approved by the board on 2 March 1999  
and signed on its behalf by

J. M. Kennedy

C. C. B. Duffett



The annexed notes form part of these accounts.

# Group cash flow statement

for the year ended 31 December

	Notes	1998		1997	
		£'000	£'000	£'000	£'000
<b>Net cash inflow from operating activities</b> .....	23		9,736		10,912
<b>Servicing of finance</b>					
Debenture interest paid.....		(16)		(16)	
Bank interest paid.....		(506)		(473)	
Dividends - preference shares .....		(13)		(13)	
			(535)		(502)
<b>Taxation</b>			(1,621)		(808)
<b>Financial investment</b>					
Purchase of investments.....		(23,923)		(43,817)	
Sale of investments.....		23,518		40,380	
			(405)		(3,437)
<b>Fixed assets</b>					
Purchase .....		(120)		(154)	
Sale .....		65		190	
			(55)		36
<b>Payment of ordinary dividend</b>			(6,816)		(6,441)
<b>Management of liquid resources</b>					
Cash withdrawn from/(placed on) short term deposits.....		14,129		(45)	
Cash placed on short term investments.....		(13,053)		-	
			1,076		(45)
<b>Financing</b>					
Proceeds of increase in share capital.....		278		791	
Drawdown/(repayment) of sterling overdraft .....		978		(158)	
Repayment of currency loans.....		(2,992)		(163)	
			(1,736)		470
<b>(Decrease)/increase in cash</b> .....			(356)		185
<b>Reconciliation of the movement in net funds</b>					
(Decrease)/increase in cash as above .....			(356)		185
Cash (inflow)/outflow from liquid resources.....			(1,076)		45
Cash outflow/(inflow) from debt repayment/(borrowing) .....			2,014		321
Exchange movements on multi-currency borrowings .....			(618)		272
Net funds brought forward .....			8,676		7,853
Net funds carried forward.....	24		8,640		8,676

## Notes to the accounts

### 1 Statement of accounting policies

(i) **Convention:** The accounts have been prepared on the historical cost basis of accounting modified to include the revaluation of investments. The accounts have been prepared in accordance with applicable accounting standards and with the "Statement of Recommended Practice – Financial Statements of Investment Trust Companies" (SORP). All of the Group's operations are of a continuing nature.

(ii) **Basis of consolidation:** The Group accounts incorporate the accounts of The Law Debenture Corporation p.l.c. and its subsidiaries made up to the end of the financial year.

(iii) **Recognition of income and expenses:** Dividends receivable from equity shares are taken to the revenue account on an ex-dividend basis.

Bank deposit interest receivable, recurring fees receivable, administration expenses and interest payable are all accounted for on an accruals basis. Non recurring fees are recognised on a receipts basis. Where trustee expenses are recoverable from third parties, the recoveries and expenses are not included as income or expenses. Expenses which are incidental to the purchase or sale of an investment are included within the cost or deducted from the proceeds of the investment.

(iv) **Goodwill:** Goodwill, representing the excess of cost over fair value of assets acquired, is written off in the year of acquisition.

(v) **Tangible fixed assets:** Tangible fixed assets are recorded at historic purchase cost less accumulated depreciation. Depreciation has been calculated to write off the cost of all tangible fixed assets over the estimated useful lives of the relevant assets as follows:

Leasehold improvements .....	over the lease period
Office furniture and equipment .....	3 – 5 years
Motor vehicles .....	5 years

(vi) **Listed investments:** The market valuation of listed investments is based on closing middle market prices for those listed in the United Kingdom and at closing bid prices for those listed overseas. No taxation or expenses which might result from a sale of the investments at the balance sheet date have been taken into account.

(vii) **Unlisted investments:** Unlisted investments are valued by the directors at cost or, where appropriate, at directors' valuation.

(viii) **Deferred income:** Trustee fees received in respect of periods subsequent to the balance sheet date are carried forward as deferred income.

(ix) **Capital reserves:** Realised and unrealised capital gains and losses, together with exchange differences arising on the translation of foreign currency assets and liabilities, are reflected through capital reserves. Exchange differences arising on the translation of net assets of overseas subsidiaries are also taken to capital reserves.

(x) **Foreign currencies:** Transactions recorded in foreign currencies during the year are translated into sterling at the exchange rate ruling on the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rate ruling at that date.

(xi) **Operating leases:** Rentals under operating leases are charged on a straight line basis over the life of the lease term.

## Notes to the accounts continued

## 1 Statement of accounting policies continued

(xi) **Pension plan:** Contributions to the Corporation's pension plan are charged to the revenue account so as to spread the cost of pension benefits over employees' expected working lives with the Corporation.

(xii) **Deferred taxation:** This is calculated using the liability method in respect of timing differences arising between the accounting and tax treatments to the extent that it is probable that the asset or liability will crystallise.

## 2 Total capital gains from investments

	1998 £'000	1997 £'000
Realised gains based on historical cost.....	9,194	12,059
Less: amounts recognised as unrealised in previous years .....	(5,120)	(8,123)
Realised gains based on carrying value at previous balance sheet date .....	4,074	3,936
Unrealised gains on investments .....	12,175	35,035
Net (losses)/gains on translation of foreign currency loans.....	(618)	272
	<u>15,631</u>	<u>39,843</u>

## 3 Income from investments and deposits

	1998			1997		
	Franked £'000	Unfranked £'000	Total £'000	Franked £'000	Unfranked £'000	Total £'000
<b>UK</b>						
Listed						
Dividend income.....	4,218	-	4,218	5,087	-	5,087
Special dividends .....	279	-	279	565	-	565
Special foreign income dividends .....	-	274	274	-	-	-
Foreign income dividends .....	-	1,648	1,648	-	770	770
Scrip dividends.....	39	-	39	43	-	43
Interest .....	-	1,215	1,215	-	1,253	1,253
	<u>4,536</u>	<u>3,137</u>	<u>7,673</u>	<u>5,695</u>	<u>2,023</u>	<u>7,718</u>
<b>Overseas</b>						
Listed dividends .....	-	1,774	1,774	-	1,500	1,500
Unlisted dividends .....	-	5	5	-	2	2
Fixed interest .....	-	66	66	-	-	-
Interest .....	-	48	48	-	53	53
	<u>-</u>	<u>1,893</u>	<u>1,893</u>	<u>-</u>	<u>1,555</u>	<u>1,555</u>
<b>Total</b> .....			<u>9,566</u>			<u>9,273</u>



## Notes to the accounts continued

## 4 Trustee and other fee income

	1998 £'000	1997 £'000
<b>Geographical analysis by location of client</b>		
United Kingdom .....	5,126	4,437
Europe and the rest of the world.....	2,926	3,395
	<u>8,052</u>	<u>7,832</u>

## 5 Administration expenses

	1998 £'000	1997 £'000
Administration expenses include:		
Salaries and directors' fees .....	2,190	1,930
Social security costs .....	195	169
Other pension costs .....	438	388
Employee profit sharing plan .....	203	203
Investment management fee .....	543	414
Depreciation .....	225	297
Office rent .....	368	383
Auditors' remuneration* .....	43	42

\*(including the Corporation £16,000 (1997: £15,000))

During the year, the Corporation employed an average of 56 staff (1997: 53).

Other fees paid to the auditors during the year amounted to £47,000 (1997: £52,000) in respect of taxation and other services. These figures do not include fees receivable by the auditors for work undertaken in connection with trusts where a member of the Group is a trustee.

Expenses are substantially incurred within the UK.

## Notes to the accounts continued

### 6 Remuneration of directors

	1998 £'000	1997 £'000
Directors' emoluments, which comprise the following, are included in administration expenses:-		
Directors' fees.....	106	101
Management remuneration.....	253	241
	<u>359</u>	<u>342</u>

The emoluments of the highest paid director totalled £241,000 (1997: £227,000) and included pension contributions of £36,000 (1997: £33,000) and amounts accrued under the terms of the employee profit sharing plan of £19,000 (1997: £21,600). His accrued pension entitlement is as follows:-

	£
Increase during 1998 excluding inflation increase	908
Accumulated total accrued pension at 31 December 1998	<u>84,604</u>
Transfer value of increase in accrued pension based on actuarial advice in accordance with Guidance Note GN11	<u>12,034</u>

Annual pension entitlements shown above are based upon service up to 31 December 1998 and do not include any Additional Voluntary Contributions. There are no other directors for whom there is an accrued pension entitlement.

No options were exercised by the directors during the year and consequently no profits on options were made. Details of options held and the emoluments of each director are shown in the Remuneration Committee Report on page 23

### 7 Interest payable

	1998 £'000	1997 £'000
Interest on debenture stock.....	16	16
Interest on multi-currency bank loans.....	196	217
Interest on bank overdrafts.....	310	257
	<u>522</u>	<u>490</u>

## Notes to the accounts continued

## 8 Return, including profit on ordinary activities before taxation

The return, including profit on ordinary activities before taxation, comprises the following profit before tax for the investment trust and trustee services activities:

	1998 £'000	1997 £'000
Investment trust.....	7,012	7,253
Trustee services.....	3,836	5,091
	<u>10,848</u>	<u>10,914</u>

## 9 Taxation

	1998 £'000	1997 £'000
Taxation, based on revenue for the year, comprises:		
UK corporation tax at 31.0% (1997: 31.5%).....	1,393	1,401
Deferred taxation (note 17).....	46	45
Less: relief for overseas withholding tax.....	(212)	(180)
	<u>1,227</u>	<u>1,266</u>
Tax on franked investment income.....	885	1,131
Overseas tax.....	162	180
	<u>2,274</u>	<u>2,577</u>

## 10 Dividends on ordinary shares

	1998 £'000	1997 £'000
Dividends on ordinary shares comprise the following:		
Interim 11.75p (1997: 11.00p).....	2,741	2,363
Proposed final		
Franked dividend (15.75p) (1997: 17.50p).....	3,674	4,073
Foreign income dividend (3.50p) (1997: Nil).....	816	-
Total for the year 31.00p (1997: 28.50p).....	<u>7,231</u>	<u>6,638</u>

## Notes to the accounts continued

### 11 Return, per ordinary share

Revenue return, including profit per ordinary share, is based on profits attributable to ordinary shares of £8,561,000 (1997: £8,354,000).

Capital return per ordinary share is based on net capital gains for the year of £15,631,000 (1997: £39,843,000).

The calculations of both revenue and capital returns per ordinary share are based on 23,303,952 (1997: 23,229,467) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Diluted revenue and capital returns per ordinary share are based on 23,352,817 (23,269,037) ordinary shares being the diluted weighted average number of ordinary shares in issue during the year assuming exercise of options at less than fair value.

### 12 Tangible fixed assets

	Group			
	Leasehold improvements £'000	Office furniture & equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>				
Balance at 1 January 1998 .....	631	412	148	1,191
Additions at cost .....	-	120	-	120
Disposals at cost .....	-	(151)	(148)	(299)
At 31 December 1998 .....	631	381	-	1,012
<b>Accumulated depreciation</b>				
Balance at 1 January 1998 .....	257	247	105	609
Provision for the year .....	111	104	10	225
Disposals .....	-	(152)	(115)	(267)
At 31 December 1998 .....	368	199	-	567
<b>Net book value at 31 December 1998 .....</b>	<b>263</b>	<b>182</b>	<b>-</b>	<b>445</b>
Net book value at 31 December 1997 .....	374	165	43	582

The Corporation holds no tangible fixed assets.

## Notes to the accounts continued

## 13 Investments

	Group		Corporation	
	1998 £000	1997 £000	1998 £000	1997 £000
<b>Summary</b>				
Listed on recognised stock exchanges at market value:				
In United Kingdom .....	165,855	154,194	165,855	154,146
Overseas .....	79,232	74,728	76,520	71,901
Total listed .....	245,087	228,922	242,375	226,047
Unlisted at directors' valuation .....	261	262	218	219
	245,348	229,184	242,593	226,266
Shares in subsidiary undertakings at cost .....	-	-	90	80
Total investments .....	245,348	229,184	242,683	226,346
	Group £000		Corporation £000	
<b>Changes in investments</b>				
Market value of investments at 1 January 1998 as previously reported .....	229,184		226,266	
Unrealised net appreciation at 1 January 1998 .....	(90,611)		(87,863)	
Cost of investments at 1 January 1998 .....	138,573		138,403	
Currency translation differences .....	(5)		-	
Additions at cost .....	23,433		23,433	
Disposals at cost .....	(14,324)		(14,324)	
Cost of investments at 31 December 1998 .....	147,677		147,512	
Unrealised net appreciation at 31 December 1998 .....	97,671		95,081	
Market value of investments at 31 December 1998 .....	245,348		242,593	

Included in investments in the Group balance sheet is a subsidiary undertaking which is held in connection with the Corporation's trustee business and in which the Group holds voting rights. This undertaking has not been included in the Group consolidation as the Corporation's ability to exercise its rights as a parent company over the assets and management of this undertaking is severely restricted by contractual agreements with other parties. The Group received a fee of £38,000 (1997: £36,400) in respect of this undertaking.

There were no amounts outstanding with this Company at the year end (1997: £NIL).

Mr R.J. Williams received £5,425 (1997: £5,200) in respect of services provided to the above undertaking.

## Notes to the accounts continued

### 13 Investments continued

The Corporation, or a subsidiary thereof, owns all the issued share capital of the following principal subsidiaries, each of which is engaged in providing trustee services. All subsidiaries are registered in England and Wales unless otherwise stated. All of the subsidiaries listed below are included in the consolidated financial statements.

L.D.C. Trust Management Limited

The Law Debenture Corporation (H.K.) Limited (incorporated in Hong Kong)

†The Law Debenture Trust Corporation (Cayman) Limited (incorporated in the Cayman Islands)

†The Law Debenture Trust Corporation (Channel Islands) Limited (incorporated in Jersey)

†The Law Debenture Trust Corporation p.l.c.

†The Law Debenture Pension Trust Corporation p.l.c.

†L.D.C. Trustees Limited

†Law Debenture Overseas Limited

†Law Debenture Corporate Services Limited

†The Law Debenture Intermediary Corporation p.l.c.

†ICI Pensions Trustee Limited

†Zeneca Pensions Trustee Limited

†Shares held by a subsidiary

All the above mentioned subsidiaries operate in the United Kingdom with the exception of those subsidiaries incorporated overseas which operate in their country of incorporation.

Details of all subsidiary undertakings will be provided in the Corporation's annual return.

### 14 Debtors

	Group		Corporation	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
(a) Due within one year:				
Corporation and other taxes recoverable .....	645	15	645	15
Amounts due from subsidiary undertakings .....	-	-	1,555	1,399
Other debtors .....	289	96	174	-
Trustee expenses recoverable .....	2,106	2,288	1	5
Prepayments and accrued income .....	3,573	3,604	1,295	1,564
Deferred taxation .....	45	46	-	-
	<u>6,658</u>	<u>6,049</u>	<u>3,670</u>	<u>2,983</u>
(b) Due after more than one year:				
Trustee expenses recoverable .....	2,658	1,769	-	-
Prepayments .....	19	22	19	-
Deferred taxation .....	61	106	-	-
	<u>9,396</u>	<u>7,946</u>	<u>3,689</u>	<u>2,983</u>

## Notes to the accounts continued

## 15 Creditors: amounts falling due within one year

	Group		Corporation	
	1998 £000	1997 £000	1998 £000	1997 £000
Borrowings (note 26).....	7,376	10,914	3,197	7,713
Investments bought for future settlement .....	-	490	-	490
Amounts owed to subsidiary undertakings .....	-	-	4,495	3,791
Corporation and other taxes .....	1,213	1,212	4	4
Other creditors .....	261	254	1	100
Trustee expenses payable .....	1,387	1,942	1	20
Accruals .....	652	712	499	433
Deferred income .....	1,759	1,502	7	6
Final dividend (preference shares) .....	7	7	7	7
Proposed final dividend (ordinary shares) .....	4,490	4,075	4,490	4,075
	<u>17,145</u>	<u>21,108</u>	<u>12,701</u>	<u>16,639</u>

## 16 Creditors: amounts falling due after more than one year

	Group		Corporation	
	1998 £000	1997 £000	1998 £000	1997 £000
Borrowings (note 26).....	2,481	350	2,481	350
Deferred income .....	3,533	2,770	8	5
	<u>6,014</u>	<u>3,120</u>	<u>2,489</u>	<u>355</u>

## 17 Provision for liabilities and charges

	1998 £000	1997 £000
As at 1 January .....	461	598
Utilisation in the year .....	(137)	(137)
As at 31 December .....	<u>324</u>	<u>461</u>

Full provision has been made for the estimated costs relating to the re-organisation of office accommodation. It is estimated that these will be released over the next three years.

**Deferred tax**

A deferred tax asset was established in 1992 to reflect the future tax benefit which will arise as the above payments are made.

	1998 £000	1997 £000
As at 1 January .....	(152)	(197)
Utilisation in the year .....	46	43
As at 31 December .....	<u>(106)</u>	<u>(154)</u>

## Notes to the accounts continued

## 18 Share capital

	1998 £000	1997 £000
<b>Authorised share capital</b>		
26,600,000 ordinary shares of 25p each.....	6,650	6,650
350,000 3.85% cumulative preference shares of £1 each.....	350	350
	<u>7,000</u>	<u>7,000</u>
<b>Allotted, issued and fully paid share capital</b>		
23,326,627 (1997: 23,285,082) ordinary shares of 25p each.....	5,832	5,821
350,000 3.85% cumulative preference shares of £1 each.....	350	350
	<u>6,182</u>	<u>6,171</u>

During the year to 31 December 1998, 41,545 shares were allotted under the SAYE Scheme and Executive Share Option Scheme for a total consideration of £278,547, which includes a premium of £268,160.

During the year, 7,110 options were granted under the Corporation's SAYE scheme. At 31 December 1998, options under the schemes exercisable between 1999 and 2008 at prices ranging from 616p to 1105p per share were outstanding in respect of 461,080 ordinary shares (1997: 204,597). During 1998, no options lapsed or were cancelled (1997: Nil).

**Executive Share Option Scheme**

This scheme was introduced in 1993 as an incentive to key executives who are responsible for the Corporation's trustee business. The options granted under the scheme are normally exercisable between the third and tenth anniversaries of the option grant date. A total of 291,500 options were granted during the year at a price of 1060.5p. An analysis of options outstanding on 31 December 1998 is set out below:-

<u>Date of grant</u>	<u>Number of option holders</u>	<u>Ordinary shares under option</u>	<u>Exercise price</u>
4 August 1993.....	4	32,500	625p
17 May 1994.....	3	30,000	742p
25 May 1995.....	7	50,000	813p
15 October 1996.....	6	17,500	965p
4 December 1998.....	31	291,500	1060.5p

**Savings Related Share Option Scheme**

This scheme was introduced in 1992 to enable employees to make regular savings in conjunction with an option for ordinary shares in the Corporation. Options are normally exercisable for a period of six months after the completion of the five year savings period. An analysis of the options outstanding at 31 December 1998 is set out below:

<u>Date of grant</u>	<u>Number of option holders</u>	<u>Ordinary shares under option</u>	<u>Exercise price</u>
26 May 1994.....	11	5,824	616p
26 May 1995.....	12	9,326	658p
7 June 1996.....	9	4,587	819p
16 May 1997.....	18	12,733	861p
28 June 1998.....	21	7,110	1105p



## Notes to the accounts continued

## 19 Share premium account

	1998 £'000	1997 £'000
Balance at 1 January.....	4,986	4,229
Issue of shares.....	267	757
	<u>5,253</u>	<u>4,986</u>

## 20 Capital reserves

	Unrealised appreciation £'000	Realised reserves £'000	Total £'000
<b>Group</b>			
At 1 January.....	92,183	118,186	210,369
Transfer on disposal of investments.....	(5,120)	5,120	-
Net gains on investments.....	12,175	4,074	16,249
Net loss on currency translation.....	(618)	-	(618)
At 31 December 1998.....	<u>98,620</u>	<u>127,380</u>	<u>226,000</u>
<b>Corporation</b>			
At 1 January.....	89,813	118,397	208,210
Transfer on disposal of investments.....	(5,121)	5,121	-
Net gains on investments.....	12,289	4,074	16,363
Net loss on currency translation.....	(610)	-	(610)
At 31 December 1998.....	<u>96,371</u>	<u>127,592</u>	<u>223,963</u>

Cumulative goodwill of £325,000, relating to companies presently within the Group, was written off directly to capital reserves in prior periods. It would be charged to the profit and loss account on any subsequent disposal of the business. No goodwill has arisen since the implementation of FRS 10.

## 21 Revenue reserves

	Group £'000	Corporation £'000
Balance at 1 January 1998.....	11,438	3,181
Net revenue retained for the year.....	1,330	296
Retained revenue at 31 December 1998.....	<u>12,768</u>	<u>3,477</u>

As permitted by section 230 of the Companies Act 1985, the Corporation has not presented its own revenue account. The revenue return, including profit on ordinary activities, after taxation for the Corporation amounted to £7,544,000 (1997: £7,164,000).

## Notes to the accounts continued

### 22 Non-equity interests

Shareholders' funds include £350,000 in respect of non-equity interests. These interests relate to the following stock:

	1998 £000	1997 £000
£350,000 3.85% cumulative preference shares of £1 each.....	350	350

The cumulative preference shares, which are undated, constitute a single class and confer on the holders priority to holders of any other class of share in the payment of dividends and repayments of capital. The cumulative preference shareholders are not entitled to attend and vote at general meetings of the Corporation.

### 23 Reconciliation of net revenue before finance costs and taxation to net cash inflow from operating activities

	1998 £000	1997 £000
Return, including profit before interest payable and taxation .....	11,370	11,433
Depreciation charge .....	225	297
Profit on sale of tangible assets .....	(33)	(22)
(Increase)/Decrease in debtors .....	(865)	880
Increase/(Decrease) in creditors .....	274	(247)
Tax on franked investment income .....	(885)	(1,131)
UK and overseas withholding tax deducted at source .....	(350)	(304)
Net cash inflow from operating activities .....	9,736	10,912

### 24 Analysis of changes in cash and cash equivalents

	31.12.97 £000	Cashflow £000	Currency Exchange £000	31.12.98 £000
Cash .....	467	(356)	-	111
Short term investments .....	-	13,053	-	13,053
Short term deposits less than 90 days .....	19,473	(14,129)	(11)	5,333
Total .....	19,940	(1,432)	(11)	18,497
Borrowings per note 26 .....	(11,264)	2,014	(607)	(9,857)
Net cash .....	8,676	582	(618)	8,640

## Notes to the accounts continued

## 25 Reconciliation of movement in shareholders' funds

	1998 £'000	1997 £'000
Opening shareholders' funds .....	232,964	190,614
Total return after dividend .....	16,961	41,559
Proceeds of issue of ordinary shares .....	278	791
Shareholders' funds at 31 December .....	<u>250,203</u>	<u>232,964</u>

## 26 Borrowings

The Group's borrowings have been classified by the earliest date on which repayment can be required as follows:

	Group		Corporation	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
<b>Unsecured borrowings falling due within one year:</b>				
Multi-currency bank loans .....	3,197	7,713	3,197	7,713
Overdrafts .....	4,179	3,201	-	-
Note 15	<u>7,376</u>	<u>10,914</u>	<u>3,197</u>	<u>7,713</u>
<b>Borrowings falling due after more than one year:</b>				
<b>Unsecured</b>				
Yen bank loans .....	2,131	-	2,131	-
<b>Secured</b>				
4.5% debenture stock .....	350	350	350	350
Note 16	<u>2,481</u>	<u>350</u>	<u>2,481</u>	<u>350</u>

The bank overdrafts have been incurred in connection with the trustee businesses.

The 4.5% debenture stock, which is undated, is redeemable at par on 6 months' notice at the discretion of the Corporation and is secured by a floating charge on the undertaking and assets of the Corporation.

The Corporation had unsecured bank loans of Yen 1,000 million (1997: Yen 1,000 million) at varying rates of interest as follows:

- Yen 600 million repayable in 1999 at an average rate of 0.5%.
- Yen 400 million repayable in 2000 at a rate of 0.875%

The Corporation repaid its loan of US\$5 million during 1998.

## Notes to the accounts continued

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### 27 Lease commitments

Amounts payable by the Group in 1998 under non-cancellable operating leases totalled £677,000 (1997: £707,000) of which £565,000 relates to land and buildings. Of the total, £28,000 related to leases expiring within one year and £649,000 to leases expiring between two and five years.

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### 28 Pension commitments

The Corporation operates a non-contributory pension plan providing benefits based on final salary. The assets of the plan are held separately from those of the Corporation and are invested in managed funds operated by insurance companies.

The contributions of the Corporation to the plan are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent independent actuarial valuation dated 1 July 1997 showed that the market value of the plan's assets was £8,399,000 and that the actuarial value of those assets represented over 110% of the benefits that had accrued to members, after allowing for expected future increases in salaries. It was assumed in the valuation that the investment return would be 8% p.a., that salary increases would average 6.5% p.a. and that present and future pensions would increase at the rate of 4% p.a. The plan was fully funded on a discontinuance basis. The annual contributions of the Corporation for retirement benefits remain at 19.4% of salaries. In addition the Corporation pays the cost of death-in-service benefits amounting to approximately 1.1% of salaries.

Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' expected working lives with the Corporation. The pension charge for the period was £438,000 (1997: £388,000).

## Shareholder information

### Investment trust status

The Corporation carries on business as an investment trust company as defined in section 842(1) of the Income and Corporation Taxes Act 1988. It will continue to conduct its affairs so as to enable it to maintain Inland Revenue approval of the Corporation's status in this respect. So far as directors are aware, the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Corporation.

### Capital gains tax

To help investors in the Corporation to calculate their capital gains tax position, the prices of the Corporation's shares and stocks at key dates were as follows:-

	Ordinary shares p	3.85% cumulative preference shares p	4.5% debenture stock units p
31 March 1982 (the start of indexation) .....	77.30	34.50	29.25
31 December 1997 .....	1110.00	80.00	72.00
31 December 1998 .....	1071.50	104.00	93.00

For shareholders who have purchased their shares through the Law Debenture Share Savings Scheme on a monthly basis and who wish to apply the Inland Revenue's optional basis of valuing holdings as if they had all been purchased in July, guidance notes have been prepared by the AITC and are available from the Company Secretary on request.

### Company and share information

Information about the Corporation can be found on its internet web site <http://www.lawdeb.co.uk>

The market price of its ordinary shares is published in the Financial Times, The Times, The Daily Telegraph, The Guardian, The Independent, the Daily Mail and the London Evening Standard.

The analysis of ordinary shareholdings at 31 December 1998 is as follows:-

	Number of shares	Proportion of ordinary capital
Individuals .....	12,843,885	55.06
Bank and other nominees .....	7,370,841	31.60
Pension funds .....	1,348,387	5.78
Insurance companies .....	1,168,098	5.01
Trust companies .....	290,991	1.25
Public bodies .....	152,549	0.65
Investment companies .....	151,876	0.65
	<u>23,326,627</u>	<u>100.00</u>

## Investment services to shareholders

The Corporation, in conjunction with the NatWest Group and Bank of Scotland, has designed a package of services to enable investors to accumulate build ordinary shareholdings conveniently and economically. Three separate methods of investment are currently available through National Westminster Bank Plc and Bank of Scotland. In addition, the Corporation intends to provide Individual Savings Accounts (ISAs), when these become available.

- **A personal equity plan**

For investors seeking a tax efficient method of investing in the shares of the Corporation. The Plan Manager is National Westminster Bank Plc and can be contacted at:

National Westminster Bank Plc, NatWest PEP Office, FREEPOST, 55 Mansell Street, London E1 8BR.

Tel No: 0171 895 5600.

The last date for applications to be received at NatWest is 1 April 1999, after which PEPs will no longer be available.

- **A monthly share savings plan**

Monthly savings from as little as £50 a month with a dividend reinvestment facility through the Administrator, Bank of Scotland Registrar Services. They can be contacted at:

The Administrator, The Law Debenture Corporation p.l.c. Share Savings Scheme, Apex House, 9 Haddington Place Edinburgh EH7 4AL. Tel No: 0131 243 5375

- **A postal share dealing service**

Regular dealings for lump sum investments or sales on preferential commission terms through NatWest Stockbrokers Limited. They can be contacted at:

NatWest Stockbrokers Limited, Corporate & Employee Services, FREEPOST, 55 Mansell Street, London E1 8BR.

Tel No: 0171 895 5448

References to services provided by members of the NatWest Group have been approved for the purposes of section 57 of the Financial Services Act 1986 by National Westminster Bank Plc, which is regulated by the Personal Investment Authority and IMRO.

Bank of Scotland is regulated by IMRO in the conduct of investment business.

NatWest Stockbrokers Limited is a member of the London Stock Exchange and regulated by the Securities and Futures Authority.



## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the one hundred and ninth annual general meeting of the Corporation will be held on Tuesday, 30 March 1999 at 11.00am at the Drapers' Hall, Throgmorton Avenue, London EC2N 2DQ for the following purposes:

### Ordinary business

1. To receive the report of the directors and the audited accounts for the year ended 31 December 1998.
2. To declare a final dividend consisting of 15.75p per share (franked) and 3.50p per share (foreign income dividend) in respect of the year ended 31 December 1998.
3. To re-elect as a director K.W.B. Inglis
4. To re-elect as a director R.J. Williams
5. To elect as a director D.C.P. McDougall
6. To re-appoint PricewaterhouseCoopers as registered auditors the Company having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Price Waterhouse and to authorise the directors to determine their remuneration.

### Special business

7. To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:  
THAT
  - (a) the directors be generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 to exercise for the period ending on the date of the Corporation's next Annual General Meeting or 30 June 2000 whichever is the earlier, all the powers of the Corporation to allot relevant securities (as defined in Section 80(2) of the said Act) up to an aggregate nominal amount of £291,583;
  - (b) in exercise of such authority the directors be empowered to allot equity securities (as defined in Section 94(2) of the said Act) wholly for cash generally up to an aggregate nominal amount of £291,583 as if Section 89(1) of the said Act did not apply to such allotment;
  - (c) the Corporation may during such period make offers or agreements which would or might require the making of allotments of equity securities or relevant securities as the case may be after the expiry of such period.

Dated 2 March 1999

By order of the board

Peter Michael Skeggs  
Secretary



Registered office:

Princes House  
95 Gresham Street  
London EC2V 7LY  
Registered no. 30397



## Notice of Annual General Meeting - Notes

1. A member who holds ordinary shares and is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his or her place. A proxy need not be a member of the Corporation.
2. You will find enclosed a form of proxy for use at the meeting. To be valid, forms of proxy must be lodged at the office of the Corporation's registrar, Computershare plc, PO Box No. 82, Caxton House, Redcliffe Way, Bristol BS99 7NH, not less than 48 hours before the time appointed for the holding of the meeting. Lodgement of a form of proxy will not prevent a member from attending and voting in person.
3. In accordance with the requirements of the Companies Act 1985, the register of directors' interests will be available for inspection at the registered office of the Corporation during normal business hours and at the Annual General Meeting. No director has a service contract with the Corporation of more than one year's duration.
4. Subject to the dividend on the ordinary shares now recommended being approved at the Annual General Meeting, dividend warrants will be posted to shareholders on the register on 12 March 1999.
5. Mr Douglas McDougall is required under the Articles of Association to retire and offer himself for election. Mr Kenneth Inglis and Mr Robert Williams retire by rotation and offer themselves for re-election.

Mr McDougall joined the board in October last year and is required by the Articles of Association to retire and offer himself for election. Mr McDougall is joint senior partner of Ballie Gifford & Co. and Chairman of IMRO. He is also the director of three other investment trust companies.

Mr Inglis is an actuary with over 25 years experience in investment management who joined the board in March 1995. He is currently chairman of Fleming Investment Management Limited and a director of a number of other investment trust companies.

Mr Williams joined the Board in October 1993. He is a former partner of Linklaters & Paines and a part time executive director of the corporation. He is also a director of two other investment trust companies.

6. In addition to the ordinary business of the meeting, special resolution 7 renews the authority given to directors at the last Annual General Meeting to allot unissued capital and to modify the pre-emption rights of shareholders in the event of a cash issue not exceeding 1,166,331 ordinary shares, being 5% of the issued share capital. This authority is sought principally to allow the directors to satisfy demand for shares from participants in the Law Debenture Share Savings Scheme and Personal Equity Plan, and would be exercised only at times when it would be advantageous to the Corporation's shareholders to do so. Shares would not be issued under this authority at a price lower than net asset value at the time of the issue. If approved, the authority will continue to operate until the next annual general meeting or, if earlier, 30 June 2000. The directors consider that it is in the best interests of the Corporation and its shareholders to allot a maximum of 1,166,331 shares other than on a pre-emptive basis, recommend that shareholders vote in favour of resolution 7 and intend to vote in favour of the resolution in respect of their own beneficial holdings amounting to 40,417 shares (0.17% of the issued ordinary share capital).

## Key personnel

Managing Director Christopher Duffett

### Loan Capital Trusteeships

#### New Business

Julian Mason-Jebb  
Denyse Anderson  
Clive Rakestrow  
Richard Rance  
Bill Rowland

#### Trust Administration

David Norris  
Abigail Holladay  
Stephen Norton  
Trudi Elkington

#### Project Finance & Management

Graham Copson

### Pension Scheme Trusteeships

Richard Thomas  
Bruce McNess  
David Barrow  
John Bloxsome  
Andy Gibson  
Patrick Harrex  
Richard Main  
Charles Morgan  
Robert Thomas

#### Service of Process

Anne Hills

#### Accounts & Finance

Peter Skeggs  
David Evans

#### Company Secretary

Peter Skeggs