

Law Debenture



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Annual Report 2002

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Performance summary

	2002	2001	Change %
Net asset value per share*	170.5p	222.9p	(23.5)
Net asset value per share - fully diluted*	170.5p	219.9p	(22.5)
FTSE All Share Index	1,893.7	2,523.9	(25.0)
Net asset value total return % change	(20.4)	(9.0)	
FTSE All Share Total Return Index % change	(22.7)	(13.3)	
Dividends per share*	6.90p	6.90p	—
Earnings			
- £000	7,402	8,188	(9.6)
- pence per share*	6.33p	7.02p	(9.8)
- pence per share - fully diluted*	6.26p	6.88p	(9.0)
Assets			
- Total assets £m	248.2	308.7	(19.6)
- Shareholders' funds	199.6	260.3	(23.3)
Share price*	192.5p	233.5p	(17.6)

* 2001 values restated following share split in August 2002

Company summary

Corporate objectives

Global Growth Investment Trust

To achieve long term capital growth in real terms and steadily increasing income. The aim is to achieve a higher rate of total return than the FT-SE Actuaries All Share Index through investing in a portfolio diversified both geographically and by industry.

Trustee and related services

To develop profitably our position as the leading independent provider of professional trustee, fiduciary and related services to international financial markets and to occupational pension schemes.

Manager & fee

Law Debenture is an independently run company whose portfolio investments are managed by Henderson Global Investors Limited under a contract terminable by either side on 12 months' notice.

Investment fee: 0.25% p.a. of average portfolio value (excluding cash).

The balance sheet is managed by Law Debenture.

Offices

London, New York, Hong Kong, Jersey, Cayman Islands

Services provided

Commercial trusts

Corporate solutions

Debt finance

Structured finance

Project finance

Dual listed companies

Delegated and successor trusteeships

Escrow arrangements

Treasury management

Pension scheme and charities trustee

Agent for service of process

Company secretarial services, including provision of directors

Investor services administration

Law Debenture share services

Savings plan

PEP/ISA

Share dealing

Ten year record

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total assets (£m)	122.0	157.4	146.3	181.4	228.1	244.3	259.7	338.2	340.9	308.7	248.2
Group revenue (£m)	11.3	11.7	12.6	14.2	16.0	17.1	17.7	18.8	21.2	20.9	22.8
Total return ¹	21.2	34.5	(6.6)	30.1	20.5	41.5	20.8	38.9	12.9	(22.7)	(45.4)
Earnings ¹	4.02	4.38	4.70	5.36	6.60	7.20	7.34	7.70	7.85	7.05	6.33
Dividends ¹	3.65	3.85	4.10	4.45	5.00	5.70	6.20	6.60	6.80	6.90	6.90
N.A.V. ¹	102.8	133.5	122.7	148.9	164.4	199.8	214.2	246.5	252.6	222.9	170.5
Share price ¹	109.8	164.6	146.2	188.4	186.2	222.0	214.3	233.6	239.6	233.5	192.5
Premium/ (Discount)(%)	6.8	23.3	19.2	26.6	13.3	11.1	0.0	(5.2)	(5.1)	4.7	12.9
Market cap. (£m)	124.5	186.7	165.8	214.4	215.5	258.5	249.9	272.6	279.4	272.7	225.3
Cost of running investment trust (% of average portfolio value)	0.37	0.40	0.45	0.46	0.43	0.39	0.42	0.46	0.47	0.48	0.51

Long term performance

	5 years %	10 years %
NAV total return ²	1.2	129.3
FTSE Actuaries All Share Index total return ²	(10.9)	92.4
Share price total return ²	(0.2)	130.7
Annual earnings growth	(2.5)	4.7
Annual dividend growth	3.9	6.6
Average annual RPI change	2.3	3.9

¹ Pence per share as restated following share split in August 2002

² Source: AITC

The performance data contained above has been compiled in accordance with AITC recommendations. Total returns assume the reinvestment of dividends.

Chairman's statement

2002 was a difficult year for both sides of our business. Equity markets were very weak, but our portfolio performed a little better than the index, while investment income held steady. The trustee services division saw good revenue growth but suffered from a bunching of what should be non-recurring costs.

Investment trust

Net asset value per share (restated following our share split in August 2002) declined by 23.5% from 222.9p to 170.5p during the year to 31 December 2002. Over the same period the FTSE All-Share Index fell by 25.0%. This means that the index has now fallen for an almost unprecedented third year in succession. While it may have constituted a good relative performance, it is of scant consolation that the Law Debenture NAV fell by 30.8% over the three year period to 31st December, while the index fell by 41.6%.

The effects of the unwinding of the investment bubble, which reached its peak in early 2000, are still outweighing any tentative signs of economic recovery. In the UK, structural changes to the equity weighting of pension funds and worries about the solvency ratios of life assurance companies have depressed a market already concerned about the prospect of war in Iraq. Given these uncertainties, it is difficult to see a catalyst for a change in sentiment, but we believe that at these levels there is good value in our portfolio for the longer term.

As you will see in our operating review on pages 9 to 11, our NAV total return outperformed the FTSE All-Share Total Return Index by 2.3%, principally because of good relative performance in the UK and Europe. More detailed attribution analysis is shown on page 9. Continuing outperformance is something we have been accustomed to during Michael Moule's tenure as investment manager at Henderson with responsibility for our portfolio. As we announced last June, Michael will be retiring during this summer and I should like to record our sincere appreciation for his efforts and to congratulate him on his excellent record. In the fourteen years since he became responsible for the day to day investment management of our portfolio, we have outperformed the benchmark in ten of them and were only marginally behind in two. This consistency of performance is reflected in the fact that we remain in the top seven trusts within our peer group over each period of years from one to ten (source: AITC). We are confident that Michael's successor, James Henderson, who has already been working closely with Michael on our portfolio for over twelve months, will continue with a similar investment strategy and philosophy.

Trustee and related services

For the trustee and related services business, 2002 saw revenue growth of 13.7% from the previous year. Law Debenture's independence and expertise are key to the development and continued growth of the fiduciary business. However, profits declined by nearly 20% owing to the incidence of a range of one-off costs, including unrecovered costs in respect of defaults, costs of restructuring overseas offices, the duplication of managing director costs and the continued investment in the New York operation, which now has a staff of five and is moving towards profitability ahead of schedule.

Chairman's statement continued

The nature of our business has evolved considerably over recent years and Law Debenture is fortunate to employ experienced, high quality staff and is able to take advantage of the developing market place to grow the business safely and profitably. The group continues to diversify into related areas, building on its expertise, to give a broader base to its trustee earnings. The New York operation has been particularly successful in obtaining delegated and successor trustee appointments in a market where there are relatively few international independent corporate trustees. The scope of the commercial trust business in London has expanded and Law Debenture is well known for providing trustee solutions to corporate problems as well as fulfilling the more familiar roles in the wholesale financial markets. Developments in the pensions industry continue to provide Law Debenture with opportunities as the need for professional independent trustees is recognised. The group now has its own money market fund, through which it can offer clients competitive rates. In 2003, given the right conditions, we would expect to see this investment management service expanded.

Earnings and dividends

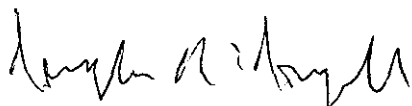
Earnings per share for the year to 31 December 2002 were 6.33p, a decrease of 9.8% from the level of last year. The board is recommending a final dividend of 4.24p per share (2001: 4.24p as restated following the share split), which, together with the unchanged interim dividend of 2.66p, gives a total unchanged dividend of 6.90p for the year. The final dividend will be paid on 22 April 2003 to holders on the register on the record date of 14 March 2003.

Board

John Edwards has indicated that he will not be seeking re-election as a director at the Annual General Meeting. His contributions at board, audit and remuneration committee meetings and guidance as chairman of LDC Trust Management Limited have been greatly appreciated. Armel Cates will in future act as chairman of that company and we have added a new non-executive director, Stephen Adamson, to its board.

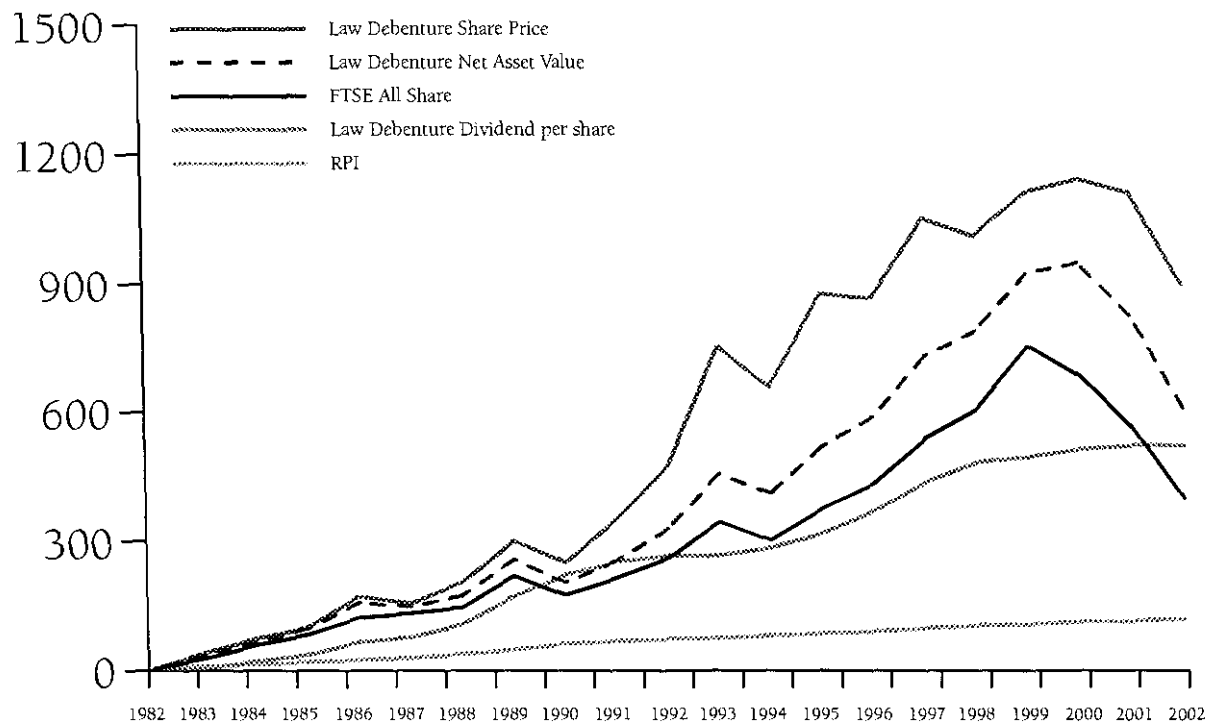
Staff

In spite of a demanding financial environment, the revenues of the trustee and related activities have continued to grow. This business makes a vital contribution to the revenue account and for that I should like to thank the staff for their continued hard work and professionalism.



Douglas McDougall

Performance graph



The above chart demonstrates the severity of the downturn in markets over the past three years. At the same time, it also shows consistent out-performance of both net asset value and share price over our benchmark, the FTSE Actuaries All-Share Index. Over the same period, dividend growth has also comfortably exceeded retail price inflation.

The Board

Douglas McDougall (58)

Chairman (Non-executive, independent)

Chairman of The Independent Investment Trust plc and Foreign & Colonial Eurotrust PLC and a director of Scottish Investment Trust plc. Former joint senior partner of Baillie Gifford & Co, investment managers, and former chairman of IMRO, of the Association of Investment Trust Companies and of the Fund Managers' Association. Joined the board in 1998, becoming chairman in 2000. Acts as chairman of the remuneration and nomination committees and is a member of the audit committee.

Caroline Banszky (49)

Managing director (Executive)

Appointed to the board in January 2002. Former Chief Operating Officer of SVB Holdings PLC, a Lloyd's listed integrated vehicle, and former Finance Director of N.M. Rothschild & Sons Limited. Acts as a key member of the LDC Trust Management Limited board.

Armel Cates (59)

Non-executive independent director

A former partner of Clifford Chance and appointed to the Board in February 2001. Wide experience of capital markets transactions including medium term note programmes, securitisations and repackagings. Director of Industri Kapital NV and of Charterhouse-in-Southwark Trustee Company. A member of the remuneration, nomination and audit committees and a member of the LDC Trust Management Limited board.

John Edwards (61)

Non-executive independent director

A former partner of Linklaters, where he specialised in advising on the international capital markets. Currently a consultant to the US law firm Akin Gump Strauss Hauer & Feld. Chairman of LDC Trust Management Limited. Joined the Board in 1997.

Kenneth Inglis (59)

Senior non-executive independent director

Qualified as an actuary in 1966 becoming investment manager with Scottish Provident. Formerly Head of Strategy at UBS Phillips & Drew, Chairman of Allied Dunbar Asset Management and Fleming Investment Management. A director of Friends Ivory & Sime plc. Joined the Board in 1995 and is chairman of the audit committee and a member of the remuneration and nomination committees.

Robert Williams (54)

Part-time executive director

A former partner of Linklaters, specialising in international finance. A director of Themis FTSE All-Small Index Trust PLC. Joined the board in 1993 and is also a member of the LDC Trust Management Limited board.

Management team

Executive Management

Caroline Banszky
Robert Williams

Commercial Trusts

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

Trust Management
David Norris
Abigail Holladay
Trudi Elkington-Poole
Stephen Norton

Treasury Management

Peter Skeggs

Pension Scheme Trusteeships

Richard Thomas
Eddie Thomas
Bruce McNess
Mark Ashworth
Steve Balmont
David Barrow
John Bloxsome
David Felder

Andy Gibson
Georg Inderst
Mike Leeson
Antony Macwhinnie
Richard Main
Charles Morgan
Robert Thomas

Corporate Services

Ian Bowden
Sharon Tyson

Service of Process

Anne Hills

Administration

Finance

Peter Skeggs
David Evans

Compliance &
Company Secretarial
Ian Bowden
Adeyemi Johnson

Information
Technology
David Toombs

Overseas offices

New York
Nancy Jo Kuenstner

Hong Kong
Christina Lee

Jersey
John Honey

Operating review - Investment Trust

Economic and market review

It seems difficult to believe that 2002 started off rather well. Financial markets were looking forward to a vigorous recovery in the US economy and a possible rise in short term interest rates. Economic forecasts for the UK and Europe were for real GDP growth of over 2% with Japan recovering and China growing at 8%. For the first three months of the year, equity markets made gradual progress with our net asset value showing a 4.5% rise to the end of March. After the 5% growth in US GDP reported for the first quarter, the US recovery ran out of steam and investors began to worry about the US experiencing a double dip recession. The export dependent German and Japanese economies were in no state to take up the running. Equity markets began a gentle decline, which accelerated in June and July as US investors began to question the quality of reported earnings. From the end of March to the end of September, our net asset value declined by 30.1%. October and November provided some much needed relief with a strong rally in global equities led by deeply oversold technology sectors, which outperformed the rest of the market. In the light of continuing weak economic indicators, the Federal Reserve made its first cut in interest rates of the year in early November, with the Federal funds rate declining by 50 basis points to 1.25%, the lowest level for 40 years. The increasingly cautious European Central Bank followed shortly afterwards, cutting interest rates from 3.25% to 2.75%, but the UK Monetary Policy Committee kept rates steady at 4% as the weak manufacturing sector was offset by a buoyant consumer sector, supported by rising house prices. December was another disappointment, oil prices soared and equities lost ground as the economic and political uncertainty caused by an increasingly probable war with Iraq became a much bigger problem for the markets to absorb.

Asset allocation and performance

Market	Law Debenture asset allocation		Total Return Performance (£)	
	31.12.01	31.12.02	Law Debenture	Relevant index*
	%	%	%	%
UK	68.5	71.8	-14.8	-22.7
Europe (ex UK)	14.5	14.6	-21.3	-27.0
North America	10.0	6.4	-31.4	-29.5
Japan	2.8	2.9	-18.5	-18.0
Pacific (ex Japan)	4.2	4.3	-16.8	-17.6

* UK: FTSE All Share. Europe: FTSE Europe (ex UK). North America: FTSE North America. Japan: FTSE Japan.
Pacific: FTSE Pacific (ex Japan)
Source: WM

Regrettably 2002 marked the third consecutive year of negative equity returns for the indices in the UK, Europe, the US and Japan. Currency movements had a meaningful impact on returns with a 32% fall in Europe, reduced to 27% by a strengthening euro. The reverse was true in the USA, where a 22% decline to local investors was converted into a 29.5% decline for sterling investors. Ratings on Wall Street still appear too high and we have switched resources away from the USA to the UK, during a year when we marginally reduced our market exposure with a slight overall net portfolio disinvestment. The table above shows that we outperformed in our two major areas of investment. There has been disappointing performance in North America, and a neutral performance in Japan and the Pacific. The whole portfolio, before the impact of gearing, showed a negative total return for the financial year of 16.7% against 22.7% for the FTSE All Share Index. However, our decision to maintain a geared position in equities reduced the benefit of good overall asset allocation and stock selection.

Operating review - Investment Trust continued

United Kingdom

The UK economy grew by 1.7% in 2002 with inflation averaging 2.2%. Growth was below the USA but considerably better than Europe and Japan. Unemployment has remained low and despite the weakness in equity markets, consumer spending has been strong supported by rising house prices. Manufacturing, particularly for export, has been very weak with an increase in companies moving their production facilities overseas. Government spending on schools, hospitals and infrastructure will become a feature in 2003 which will help to offset any slowdown in consumption.

Investors were concerned about asset and income safety which favoured large, defensive companies with strong balance sheets and secure dividend yields. The top 100 stocks led by tobacco, food, water and property sectors, outperformed the mid 250 and smaller companies. Information technology, electronics, insurance and telecom were the worst performing sectors. We have been quite active with 5 net new investments, bringing the total number of UK holdings to 95. There was a decline in corporate activity but cash bids were accepted for Enterprise Oil and Powergen, and we sold British Airways, Cable & Wireless and mmO₂. We added to the housebuilding sector with purchases of Wimpey and Barratt, increased our media exposure via BSkyB and Johnston Press and added to the water sector switching Pannon into Severn Trent and purchasing United Utilities. We reduced HSBC in favour of Standard Chartered, and bought two low yielding growth stocks, Wellington Holdings and Galen. With £1 billion in cash and no bank debt, we thought Colt Euro bonds were mispriced, providing an income yield of 16% and redemption yield of 24%.

Europe

Europe has performed very poorly with the two largest markets, Germany and France declining by 44% and 31% respectively. However we have been partially rescued by the 6.5% increase in the euro versus sterling. Tim Stevenson, our European portfolio manager, has done a splendid job avoiding most of the big losers and our large property weighting has also contributed to our performance. Equities both in Europe and the UK have been further depressed by forced selling by life insurance and pension funds to protect their solvency margins. The major disposals were mostly transacted in February with well timed sales of Siemens, Ahold, Securitas, KPN, Deutsche Bank and J C Decaux. The new purchases were Wereldhave, a Dutch property company yielding 7%, Deutsche Börse, Fresenius, Adecco and Sandvik. A switch from Lufthansa into Ryanair was very successful. After the very large equity market falls during the summer, some major companies were forced to have rescue rights issues at deeply discounted levels. We accepted sub-underwriting for new issues in Ericsson, Zurich Financial and Swiss Life, earning significant levels of commission.

North America

We have found it increasingly difficult to add value in the US and Canada, which is most frustrating. Large capitalisation growth stocks have been battered by hedge fund shorting and mutual fund redemptions. Investor confidence was severely shaken by the collapse of Enron and Worldcom, the discovery of creative accounting at Tyco and Xerox, and widespread evidence of corporate greed at the expense of shareholders. Although the authorities have acted quickly to restore confidence in the accounting process and the conflicts regarding broker recommendations, the wounds will take some time to heal. Ann Hall replaced Chris Galley as manager of our North American portfolio at the beginning of the year and consequently turnover has been high as she re-shaped the portfolio. Out of our original portfolio of 22 stocks at the start of the year only 9 holdings remain, and our very large position in AIG was halved to reduce stock specific risk. New holdings were established in 12 companies, the four largest being Deere, Philip Morris, AmerisourceBergen and Eaton.

Operating review - Investment Trust continued

Japan

Japanese equities made steady progress until May on hopes of a strong US economic recovery. The rise in the TOPIX Index of 8.4% was the best performing major market in the world for the first five months of the year. Unfortunately as the outlook for both the US and world economy started to deteriorate, fears of a further year of no economic growth and 1% deflation brought about a sharp reversal. Foreign investors lost confidence both in the stockmarket and the currency and the equity market dropped to an 18 year low in December. Our modest exposure in Japan is held through the Henderson Japan Capital Growth Fund, which is well diversified and performed in line with the market last year. Although the economic outlook is for a further year of zero growth with 1% deflation, many companies are coping very well with the continuing recession with profit margins continuing to rise from low levels.

Pacific

Like Japan, the Pacific Region was one of the better performing areas during the first five months of our year. Strong growth in China and Korea was offset by the very poor economic outlook in Hong Kong and a rapid slowdown in Taiwan which is heavily dependent on high technology exports to the US. The equity markets in the Pacific Rim are closely correlated with the US and this year proved no exception with the FTSE Pacific ex-Japan Index declining by 17.6% for sterling investors. We are almost exclusively invested in the Henderson Pacific Capital Growth Fund which provides a diversified portfolio spread throughout the region and which slightly outperformed the Index. There was a very wide disparity of country performance which on balance reflected the economic fortunes of the region. Thailand was the best performing market with a rise of 10.4% contrasting with Taiwan, which declined by 31.7%.

Top 20 holdings by value

Rank	Company	Value £000	2002		2001	Rank
			% of portfolio	% of portfolio		
1.	BP	11,529	4.96	4.01		2
2.	Henderson Pacific Capital Growth ¹	10,000	4.30	4.12		1
3.	GlaxoSmithKline	8,702	3.75	4.00		3
4.	HSBC	6,707	2.89	3.04		4
5.	Henderson Japan Capital Growth ¹	6,650	2.86	2.78		5
6.	Shell Transport and Trading	6,544	2.82	2.69		6
7.	Royal Bank of Scotland	6,101	2.63	2.34		7
8.	Vodafone	4,530	1.95	2.02		8
9.	HBOS	4,061	1.75	1.51		12
10.	Barclays	3,850	1.66	1.94		9
11.	British American Tobacco	3,661	1.58	1.05		15
12.	AstraZeneca	3,330	1.43	1.59		11
13.	Nestlé	3,287	1.41	1.24		13
14.	Diageo	3,240	1.39	1.23		14
15.	Lloyds TSB	3,211	1.38	1.83		10
16.	Reckitt Benckiser	2,651	1.14	0.75		30
17.	Land Securities	2,591	1.12	0.56		61
18.	BT	2,535	1.09	0.95		20
19.	Unilever	2,482	1.07	0.85		25
20.	Unibail	2,210	<u>0.95</u>	0.60		56
			42.13			

The top 20 individual holdings by value at 31 December 2001 accounted for 40.23% of the investment portfolio.

¹ Open ended investment companies

Classification of investments

based on market values at 31 December 2002

	United Kingdom %	North America %	Europe %	Japan %	Other Pacific %	Total 2002 £000	2002 %	Total 2001 £000	2001 %
Resources									
Mining.....	2.03					4,709	2.03	5,766	1.98
Oil & Gas	8.36	0.45	1.60			24,180	10.41	27,871	9.52
	10.39	0.45	1.60	-	-	28,889	12.44	33,637	11.50
Basic Industries									
Chemicals	0.95		0.34			2,971	1.29	3,935	1.35
Construction & Building Materials	3.68					8,584	3.68	9,921	3.38
Forestry & Paper.....	0.63					1,455	0.63	1,565	0.53
	5.26	-	0.34	-	-	13,010	5.60	15,421	5.26
General Industrials									
Aerospace & Defence	1.06					2,469	1.06	3,382	1.16
Electronic & Electrical Equipment.....	0.59		0.65			2,874	1.24	8,829	3.01
Engineering & Machinery	1.28	0.80	0.39			5,742	2.47	2,827	0.96
	2.93	0.80	1.04	-	-	11,085	4.77	15,038	5.13
Cyclical Consumer Goods									
Automobiles & Parts.....	0.17		0.34			1,189	0.51	3,041	1.03
	0.17	-	0.34	-	-	1,189	0.51	3,041	1.03
Non-Cyclical Consumer Goods									
Beverages.....	2.64	0.63				7,593	3.27	9,130	3.12
Food Producers & Processors.....	1.68		1.41			7,182	3.09	7,629	2.60
Health	0.77	0.97	0.45			5,085	2.19	6,000	2.05
Personal Care & House Products	1.14					2,651	1.14	3,708	1.26
Pharmaceuticals & Biotech.....	5.44	0.80	0.60			15,893	6.84	19,654	6.72
Tobacco	2.48	0.39				6,665	2.87	5,675	1.93
	14.15	2.79	2.46	-	-	45,069	19.40	51,796	17.68
Cyclical Services									
General Retailers.....	2.79	0.16				6,874	2.95	9,524	3.25
Leisure, Entertainment and Hotels	2.85	0.36	0.35		0.04	8,365	3.60	13,494	4.60
Media & Photography	2.35					5,471	2.35	6,803	2.32
Support Services	0.94	0.34	2.09			7,811	3.37	10,734	3.66
Transport	1.62		1.03			6,155	2.65	8,172	2.80
	10.55	0.86	3.47	-	0.04	34,676	14.92	48,727	16.63
Non Cyclical Services									
Food & Drug Retailers	0.92	0.16				2,504	1.08	3,558	1.21
Telecommunication Servs	3.56		0.22			8,781	3.78	12,111	4.14
	4.48	0.16	0.22	-	-	11,285	4.86	15,669	5.35
Utilities									
Electricity	1.79					4,145	1.79	5,937	2.03
Gas Distribution						-	-	617	0.21
Water	1.38					3,191	1.38	2,145	0.74
	3.17	-	-	-	-	7,336	3.17	8,699	2.98
Information Technology									
Information Technology Hardware		0.21				490	0.21	749	0.26
Software & Computer Services.....		0.57				1,317	0.57	2,549	0.87
	-	0.78	-	-	-	1,807	0.78	3,298	1.13
Financials									
Banks.....	12.11	0.28	1.68			32,658	14.07	43,900	14.98
Insurance.....	0.80	0.27				2,517	1.07	4,069	1.39
Life Assurance.....	3.53		1.09			10,748	4.62	13,168	4.48
Investment Companies	0.01			2.86	4.30	16,685	7.17	20,364	6.94
Real Estate.....	2.71		1.70			10,227	4.41	10,308	3.52
Speciality & Other Finance	1.58		0.63			5,132	2.21	5,892	2.00
	20.74	0.55	5.10	2.86	4.30	77,967	33.55	97,701	33.31
Total 2002	71.84	6.39	14.57	2.86	4.34	232,313	100.00		
Total 2001	68.53	9.96	14.55	2.81	4.15			293,027	100.00

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

Portfolio valuation

as at 31 December 2002

The number of investments has increased from 142 at 31 December 2001 to 143 at 31 December 2002.

Those shown in italics are new holdings in the six months since 30 June 2002.

	£000	%		£000	%
Resources			Non-Cyclical Consumer Goods		
Mining			Beverages		
Rio Tinto.....	1,860	0.80	Diageo	3,240	1.39
Anglo American.....	1,522	0.66	Scottish & Newcastle	1,622	0.70
BHP Billiton.....	1,327	0.57	Pepsico (USA)	1,461	0.63
Oil & Gas			Allied Domecq.....	1,270	0.55
BP	11,529	4.96	Food producers & Processors		
Shell Transport & Trading.....	6,544	2.82	Nestlé (Switz)	3,287	1.41
Total Fina (Fra)	2,073	0.89	Unilever	2,482	1.07
IHC Caland (Neth).....	1,639	0.71	Cadbury Schweppes	1,413	0.61
BG	1,340	0.58	Health		
Exxon Mobil (USA).....	1,055	0.45	Smith & Nephew.....	1,788	0.77
Basic Industries			Medtronic (USA)	1,416	0.61
Chemicals			Fresenius (Ger)	1,038	0.45
BOC	1,154	0.50	AmerisourceBergen (USA)	843	0.36
ICI	1,035	0.45	Personal Care & House Products		
Bayer (Ger)	782	0.34	Reckitt Benckiser.....	2,651	1.14
Construction & Building Materials			Pharmaceuticals & Biotech		
Persimmon.....	1,704	0.73	GlaxoSmithKline	8,702	3.75
Wolseley.....	1,565	0.67	AstraZeneca	3,330	1.43
Wimpey (George).....	1,330	0.57	Novartis (Switz).....	1,405	0.60
Barratt Development.....	1,173	0.50	Pfizer (USA).....	1,215	0.52
Hanson.....	966	0.42	Bristol-Myers Squibb (USA)	647	0.28
Pilkington.....	928	0.40	Galen	594	0.26
RMC	918	0.39	Tobacco		
Forestry & Paper			British American Tobacco	3,661	1.58
David S. Smith.....	1,455	0.63	Gallaher	2,098	0.90
General Industrials			Philip Morris (USA)	906	0.39
Aerospace & Defence			Cyclical Services		
Smiths	1,391	0.60	General Retailers		
Rolls Royce	706	0.30	GUS	1,846	0.79
BAE Systems.....	372	0.16	Boots	1,406	0.61
Electronic & Electrical Equipment			Marks & Spencer	1,197	0.52
Philips (Neth)	1,502	0.65	W.H. Smith	1,064	0.46
TT Electronics	1,161	0.50	Dixons	986	0.41
Invensys.....	211	0.09	Best Buy (USA)	375	0.16
Engineering & Machinery			Leisure, Entertainment & Hotels		
Renold	1,215	0.52	Greene King.....	1,897	0.82
Tomkins	1,140	0.49	Six Continents.....	1,506	0.65
Deere (USA).....	1,139	0.49	P & O Princess Cruises	1,293	0.56
Sandvik (Swed)	901	0.39	Hilton.....	1,169	0.50
Eaton (USA)	728	0.31	Elmor (Fra)	821	0.35
Cookson.....	390	0.17	Mytravel 5.75% Conv. Bond	691	0.30
Morgan Crucible	229	0.10	AOL Time Warner (USA)	488	0.21
Cyclical Consumer Goods			McDonalds (USA)	350	0.15
Automobiles & Parts			Clearwater (HK)	92	0.04
Volkswagen (Ger)	787	0.34	Mytravel.....	58	0.02
GKN.....	402	0.17			

Portfolio valuation continued

	£000	%
Media & Photography		
Reed Elsevier	1,809	0.78
Johnston Press	1,474	0.63
BSkyB	1,278	0.55
Reuters	533	0.23
United Business Media	377	0.16
Support Services		
ISS International (Den)	1,387	0.60
Adecco (Switz)	974	0.42
Rentokil	968	0.42
TPG (Neth)	926	0.40
Compass	891	0.38
Sodexo Alliance (Fra)	789	0.34
Deutsche Post (Ger)	768	0.33
Tyco (USA)	690	0.30
Michael Page	329	0.14
Leach (USA)	89	0.04
Transport		
Ryanair (Ire)	1,517	0.65
BAA	1,361	0.59
Exel	894	0.38
Fraport (Ger)	875	0.38
Avis Europe	850	0.37
P&O	658	0.28
Non-Cyclical Services		
Food & Drug Retailers		
Tesco	2,134	0.92
Sysco (USA)	370	0.16
Telecommunications Services		
Vodafone	4,530	1.95
BT	2,535	1.09
Colt Telecom 7.625% 15 Dec 2009 ..	736	0.32
Hellenic Telecom (Greece)	513	0.22
Colt Telecom 7.625% 31 Jul 2008	467	0.20
Utilities		
Electricity		
National Grid Transco	1,552	0.67
Scottish & Southern Energy	1,360	0.59
Scottish Power	1,233	0.53
Water		
Severn Trent	1,943	0.84
United Utilities	1,248	0.54
Information Technology		
Information Technology Hardware		
Cisco Systems (USA)	490	0.21
Software & Computer Services		
Microsoft (USA)	1,317	0.57

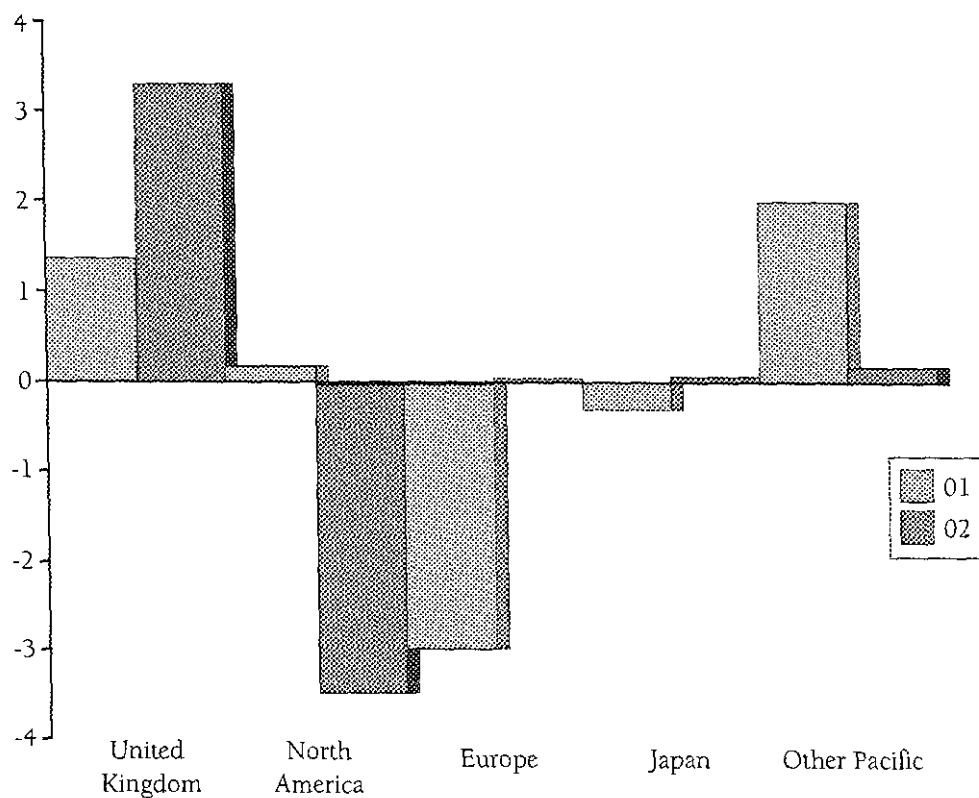
Financials

	£000	%
Banks		
HSBC	6,707	2.89
Royal Bank of Scotland	6,101	2.63
HBOS	4,061	1.75
Barclays	3,850	1.66
Lloyds TSB	3,211	1.38
Abbey National	1,554	0.67
ABN Amro (Neth)	1,503	0.65
Alliance & Leicester	1,343	0.58
Standard Chartered	1,270	0.55
BNP Paribas (Fra)	1,215	0.52
Fortis (Neth)	1,195	0.51
Bank of America (USA)	648	0.28
Insurance		
Wellington Underwriting	1,034	0.44
Royal & Sun Alliance	845	0.36
American International Group (USA) ..	638	0.27
Life Assurance		
Aviva	1,816	0.78
Prudential	1,668	0.72
Aegon (Neth)	1,615	0.69
Legal & General	1,451	0.62
Old Mutual	1,408	0.61
Friends Provident	966	0.42
Alleanz Assicuraz (Ita)	940	0.40
Britannic	884	0.38
Investment Companies		
Henderson Pacific Capital Growth ..	10,000	4.30
Henderson Japan Capital Growth ..	6,650	2.86
International Inc Fund	35	0.01
Real Estate		
Land Securities	2,591	1.12
Unibail (Fra)	2,210	0.95
Slough Estates	2,034	0.88
Wereldhave (Neth)	1,744	0.75
Hammerson	1,648	0.73
Speciality & Other Finance		
Provident Financial	1,544	0.66
Man Group	1,507	0.65
Deutsche Börse (Ger)	1,418	0.61
Amvescap	557	0.24
Norsk Tillitsmann (Nor)	43	0.02

Changes in geographical distribution

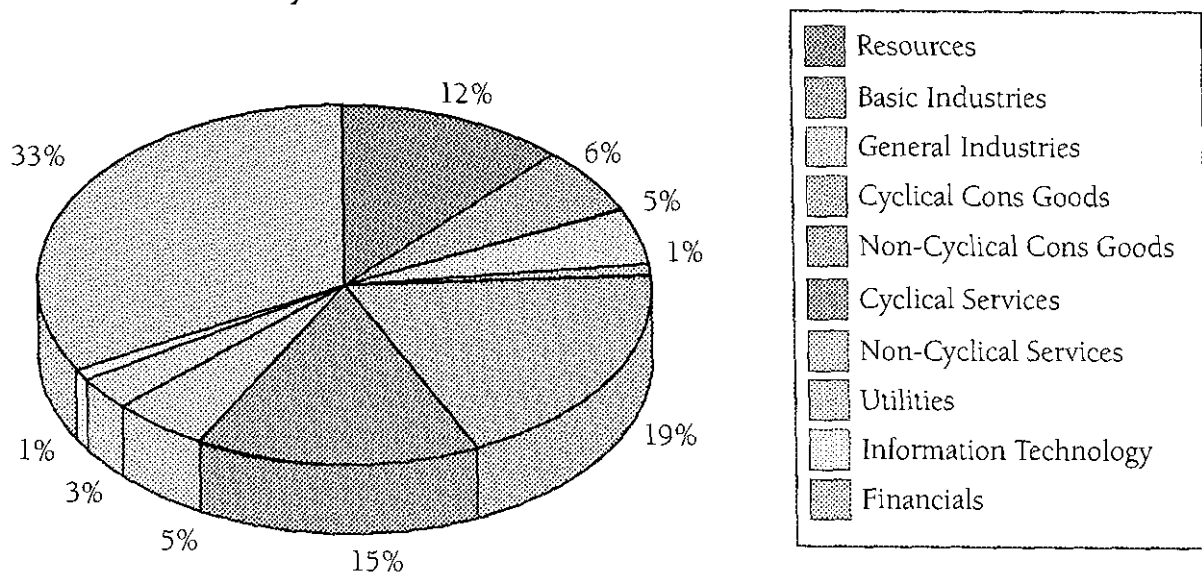
	Valuation 31 Dec 2001 £000	Purchases £000	Sales proceeds £000	Depreciation £000	Investments 31 Dec 2002 £000
United Kingdom.....	200,742	31,286	(27,513)	(37,676)	166,839
North America.....	29,160	9,998	(15,280)	(9,013)	14,865
Europe.....	42,696	10,591	(9,722)	(9,698)	33,867
Japan.....	8,232	-	(59)	(1,523)	6,650
Other Pacific.....	12,197	-	-	(2,105)	10,092
	<u>293,027</u>	<u>51,875</u>	<u>(52,574)</u>	<u>(60,015)</u>	<u>232,313</u>

% change in geographical distribution of investments (excluding cash)

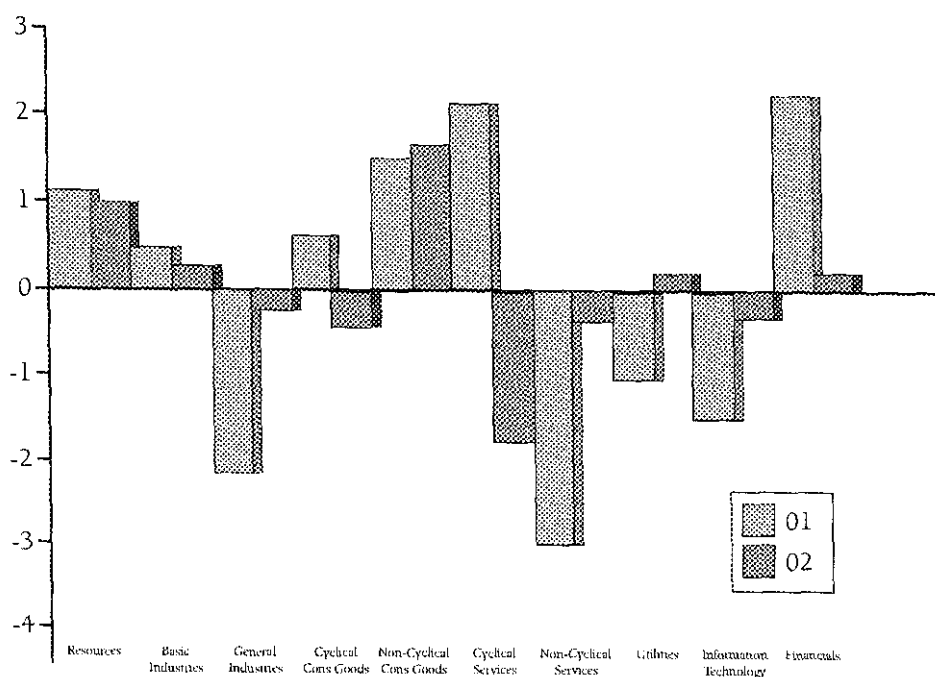


Sector analysis

Portfolio by sector - 2002



% change in investments by sector



Operating review - Trustee and related services

Results

2002 saw challenging market conditions, but in spite of this, income from trustee and related services increased by nearly 14% over the previous year. Profitability was adversely affected by a number of one-off costs, including some investment for the future, which we expect to pay good dividends in later years. These one-off costs relate to unrecovered costs incurred in respect of debt defaults, overseas office restructuring and duplication of managing director costs. Law Debenture's expertise and independence are valued and enable us to continue to develop profitable lines in fields related to our existing businesses.

Commercial trusts

The commercial trusts area remains the largest contributor to income in our trustee and related services business. Whilst the capital markets continue to provide the majority of the work for our team, other corporate finance transactions are becoming more important. There is an increasing demand in many areas for an independent third party to hold assets on behalf of others and our expertise has enabled us to expand the range of transactions in which we are involved. Such transactions range from simple escrow arrangements to complex voting trusts.

Significant new capital markets deals in which we have been involved during 2002 include debt issues for EMI, First Group, HBOS, Lloyds TSB and Royal Bank of Scotland and convertible issues for Aegis, Anglo American, Corus and Friends Provident. More complex issues include funding for the A28 toll road project in France and the securitisation of BUPA's private hospital business. An example of corporate finance transactions would be a special voting arrangement for Xstrata to protect the entrenched rights of shareholders on the company's change of domicile from Switzerland to the UK.

In the present financial environment, it is unsurprising that we have been involved in a number of defaults and restructurings, including Railtrack and Marconi, where we have an established reputation for dealing with difficult issues in an effective and pro-active way. Regrettably involvement in this area has led to the incidence of costs, certain of which have been provided against as non-recoverable. A further development in an area which has always been difficult is the growing influence and involvement of the US based hedge funds or 'vulture funds'. The principal aim driving these funds is to maximise their return on distressed or undervalued debt. To this end they adopt an aggressive approach towards all parties, including the trustee.

Pensions and Charities

Pensions issues are rarely out of the news these days. The continuing searchlight on companies' responsibilities to their schemes, the cost of providing pensions and the security (or otherwise) of the pensions promise have together created a climate in which the value of our service is more and more appreciated. We have a high quality client list and this provides a firm foundation for our business, leading us to believe that there is long term growth both in services to existing clients and in new business.

We saw significant growth in our portfolio of pension schemes last year, with new appointments from existing clients as well as new ones. The schemes we took on were large and small, ongoing, closed and in wind up, final salary and money purchase, and both tax approved and unapproved. We were particularly pleased at being appointed to the schemes of a major consultant to the pensions industry, a substantial fund manager, and a leading business school. The other companies who appointed us are plc's ranging from very large to medium sized, and a substantial privately owned firm. We think that this variety demonstrates well the benefits of the professionalism that we can bring, and shows that the advantages of using us are appreciated both inside the industry and outside it.

Operating review - Trustee and related services continued

It is too early to say how the latest Green Paper on working and saving for retirement will affect us, but our preliminary view is that its focus on the protection of members' benefits should enable us to win more appointments.

We remain convinced of the value of the services we can provide to charities and we continue to seek new opportunities. The present economic climate is, however, causing problems for many charities and, in the short term, we do not expect to secure any significant number of profitable appointments.

Corporate services

Law Debenture Corporate Services Limited has two income streams. The first is our long-established and very highly-regarded service of process business. This goes from strength to strength, dealing with appointments from all parts of the world.

The second income stream is the provision of company secretarial services and corporate directors to third parties, principally for the purposes of securitisations and corporate finance transactions. Although comparatively small at the moment, we expect this business to increase significantly, both through working with our commercial trust business and increasingly in offering services independent of the trustee area.

Treasury management

Although we have been involved in the management of trust related cash for many years, we are expanding our capabilities to enable us to handle cash and short term investments in other situations. We have installed a new treasury management system which enables us to handle far greater numbers of transactions with even higher control standards. In addition we now offer a money market fund which offers good security and flexibility for invested cash. These developments should enable us to expand our operations in this area significantly in future years.

Investor services

We have now upgraded our software, which will enable us to take on share savings schemes for third parties in addition to our own. This software can also be adapted for similar activities, such as dividend payments and voting trusts.

Operating review - Trustee and related services continued

Overseas

New York

Law Debenture Trust Company of New York was licensed by the New York Department of Banking on 8 May 2002 and since then has taken on successor trusteeships for issuers in financial difficulty, where the original trustee finds itself with a conflict of interest, for 20 issues totalling about US\$ 15 billion. Our entry into this marketplace as an independent trustee was well timed to take advantage of the conflicts of interest which inevitably arise in the US market, where there has been significant consolidation of corporate trust providers. Marketing of our services in other areas of the trustee markets has begun and we have high hopes for significant new business in 2003.

Law Debenture Corporate Services Inc. has been very successful in offering service of process agency, particularly in connection with the US Patriot Act. We have a rapidly growing customer base where we offer a personalised and efficient service.

Hong Kong

We have restructured the Hong Kong office to reduce costs and have every expectation of satisfactory returns in the future. Most of the work in Hong Kong derives from the capital markets. The most significant appointment in 2002 was as Security Trustee for Cyberport, a major development of residential and hi-tech space involving the Hong Kong Government. The Hong Kong office continues to provide support and assistance to the London office in connection with the refinancing of defaulted debt in the region. Notwithstanding the difficult economic conditions facing Hong Kong and South East Asia, we remain committed to developing further new business in the region. Encouragingly, the HKSAR Government plans to develop Hong Kong's small bond market by making it easier for local and regional issuers to raise funds at competitive rates by introducing new measures such as simplified prospectus requirements. We are also tracking developments in the financial centres of China in the context of new trustee laws and where we anticipate that new opportunities will arise in the future.

Channel Islands

Law Debenture (Channel Islands) has now received its formal licence to undertake trust company business having previously operated under the transitional regulatory regime. The Channel Islands continue to provide a stable base for transactions where an offshore centre close to the UK and mainland Europe is required.

Cayman Islands

Law Debenture (Cayman) is a registered trust company which provides a useful location for offshore transactions.

Directors' report

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2002. The Corporation retains its status as an investment trust and has been treated by the Inland Revenue and approved as such for the year ended 31 December 2001, the latest year for which financial statements have been submitted. Such approval for the year ended 2001 is subject to there being no subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the directors, the Corporation has subsequently conducted its affairs so as to enable it to obtain s.842 approval under the Income and Corporation Taxes Act 1985. The Corporation, which (as far as the directors are aware) is not a close company, is registered as an investment company as defined in section 266 of the Companies Act 1985 and operates as such. The directors consider that the Group operates as a going concern.

Revenue, dividends and reserves

The revenue return attributable to shareholders for the year ended 31 December 2002 was £7,402,000. The directors recommend a final dividend of 4.24p per share, which together with the interim dividend of 2.66p paid in September 2002, will produce a total of 6.90p (2001: 6.90p as restated following the share split). The final dividend will be paid on 22 April 2003 to holders on the register on the record date of 14 March 2003. After deduction of dividends of £8,073,000 (2001: £8,057,000), consolidated revenue reserves decreased by £671,000 (2001: an increase of £131,000).

Directors

As stated in last year's report, Mr C.C.B. Duffett did not seek re-election at the last Annual General Meeting. With the exception of Mrs C.J. Banzky (appointed on 29 January 2002), all the directors on page 7 held office throughout the year. In accordance with the articles of association, Mr A.C. Cates and Mr J. Edwards retire by rotation at the Annual General Meeting. Mr A.C. Cates offers himself for re-election; Mr J. Edwards will not seek 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. During the year, liability insurance was maintained for the benefit of directors and other officers.

Directors' shareholdings

Beneficial interests as at

	31 December	
	2002	2001
C.J. Banzky.....	4,934	-
A.C. Cates	35,004	25,435
J. Edwards	12,500	12,500
K. W. B. Inglis	22,500	22,500
D.C.P. McDougall.....	410,000	410,000
R. J. Williams.....	61,983	60,415

No director has a beneficial interest in the shares of any subsidiary company. Mrs C.J. Banzky held no shares in the Corporation when appointed as director on 29 January 2002. There has been no change in directors' interests since 31 December 2002, save for Mrs C.J. Banzky, who has acquired a further 541 shares. All holdings reflect the share split of August 2002.

Regulatory compliance

The Corporation is subject to continuing obligations applicable to listed companies, overseen by the UK Listing Authority, which is a division of the Financial Services Authority ("FSA"). Most of Law Debenture's regulatory activity is undertaken by Law Debenture Investment Management Limited, including the administration of the Group's share savings scheme. The directors receive periodic reports from the Compliance Officer about the conduct of the savings scheme and other regulatory matters.

Directors' report continued

Corporate governance developments

Law Debenture is aware of the recommendations of the Higgs and Smith reviews and will consider their impact when the consultation process is complete.

Law Debenture's responsibilities as an institutional shareholder

The Corporation's policy is as follows:

Law Debenture will normally support incumbent management and, where practicable, vote in favour of resolutions proposed by the boards of companies in which it has a shareholding, but only so long as Law Debenture is satisfied that management has in place adequate procedures to meet the standards of corporate governance laid down in the Combined Code on Corporate Governance (or equivalent for non-UK companies), and elsewhere.

The board determines the Corporation's investment strategy but does not issue express instructions to the investment manager about whether it should or should not invest in any particular share. Where Law Debenture believes that incumbent management is failing in its corporate governance duties, Law Debenture (or on its behalf, the Corporation's investment manager) may attempt to enter dialogue with the company concerned in an attempt to alter the management's position.

Where this is not possible, or where incumbent management declines to alter its behaviour, Law Debenture will consider abstaining or voting against resolutions proposed by the management.

Henderson Global Investors, on Law Debenture's behalf, monitors companies in which Law Debenture is invested, and from time to time may discuss matters of corporate governance with such companies. The Henderson corporate governance unit will notify Law Debenture's investment manager who in turn will notify Law Debenture, should matters arise that might lead the Corporation to consider intervening, abstaining or voting against a particular proposal.

The Corporation will not hold shares in companies whose ethical and environmental practices are in its view likely to damage the performance of the business to the detriment of its shareholders.

Repurchase of shares

During the year, the Corporation did not repurchase any of its shares. It intends to seek shareholder approval to renew its powers to repurchase shares up to 14.99% of the Corporation's issued share capital, if circumstances are appropriate.

Substantial shareholdings

As at 25 February 2003, the following shareholders have notified the Corporation of their interest in 3% or more of the issued share capital:-

British Empire Securities & General Trust plc	6.48%
The Merchant Investors Assurance Co. Ltd.....	3.45%

The board is not aware of any other substantial holdings.

Directors' report continued

Shareholder relations

The Corporation encourages communication between the management and shareholders on matters of mutual interest. All shareholders receive a copy of the annual report and the interim statement, whether their shares are held directly or through nominees under one of the Corporation's investor schemes. Alternatively, if they so wish, shareholders may choose to receive communications in electronic form.

Employee participation

Employees are informed of the financial aspects of the Group's performance through periodic management meetings. Copies of the annual report and the interim statement are made available to all employees. Details of the general bonus scheme are contained in the Remuneration report on page 28. The Corporation has since 1992 operated SAYE schemes in which all full-time employees are eligible to participate after completing a minimum service requirement. A new scheme was approved by the shareholders in 2002. Options outstanding under the SAYE schemes at 31 December 2002 were:

<u>Date of grant</u>	<u>Number of option holders</u>	<u>Shares under option*</u>	<u>Exercise price*</u>
28 June 1998	15	26,505	221.00p
10 May 1999	19	47,585	233.80p
23 May 2000	15	32,540	230.00p
24 May 2001	22	36,285	241.04p
4 July 2002	35	91,415	225.10p

It is essential to retain and incentivise key executives responsible for the trustee business. Since 1993, the Corporation has operated Executive Share Option Schemes, which enable these executives to be granted options to acquire shares in the Corporation. A new scheme was approved by shareholders in 2002. Options granted under the scheme are normally exercisable between the third and tenth anniversaries of the option grant date. For options granted from 1998 onwards, such exercise is contingent upon targets for the trustee business being achieved. 31,205 options were granted during 2002 and total options outstanding at 31 December 2002 were as follows:-

<u>Date of grant</u>	<u>Number of option holders</u>	<u>Shares under option*</u>	<u>Exercise price*</u>
4 August 1993	1	50,000	125.0p
17 May 1994	1	50,000	148.4p
25 May 1995	5	200,000	162.6p
15 October 1996	1	12,500	193.0p
4 December 1998	27	1,285,000	212.1p
7 August 2001	37	1,642,580	245.8p
2 August 2002	1	31,205	211.5p

In addition, a discretionary bonus scheme for key executives was introduced in 1999, with awards made on the basis of attaining individual goals and corporate performance targets for the trustee business.

* Restated following share split in August 2002

Directors' report continued

Investment management

Henderson Global Investors Limited, a subsidiary of AMP Limited ("AMP"), is solely responsible for the management of the investment portfolio. The agreement does not cover custody or the preparation of data associated with investment performance, which are outsourced, or record keeping, which is maintained by the Corporation. Fees paid to Henderson in the year amounted to £541,000 (2001: £666,000) and are net of fees of 1% on our holdings in the Henderson Japanese and Pacific OEICs, which have been rebated to the Corporation. The Corporation holds no shares in members of the AMP Group; it has been notified that funds managed by members of the AMP Group held 916,208 shares in the Corporation at 31 December 2002.

Charitable donations

During the year the Corporation made charitable donations of £1,743 (2001: £1,325).

Payment of suppliers

The Group is committed to seeking the best terms possible for all types of business and hence there is no single policy as to the terms used. For most suppliers, the average credit period is 29 days. Special arrangements exist for suppliers of certain legal services, where the Group charges these costs to its clients.

Statement of directors' responsibilities in relation to the financial statements

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Corporation and the Group and of the revenue of the Group for the financial year.

In preparing the accounts on pages 35 to 54, the directors are required to select suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and state whether applicable accounting standards have been followed. They consider it appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the Group consist mainly of readily realisable securities.

The directors are responsible for keeping accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors are also responsible for the system of internal controls, safeguarding the assets of the Group and hence for taking reasonable steps for preventing and detecting fraud and other irregularities.

The directors are responsible for ensuring that the directors' report, the directors' remuneration report and other information included in the annual report are prepared in accordance with company law in the United Kingdom. They are also responsible for ensuring that the annual return includes information required by the Listing Rules of the Financial Services Authority.

Auditors

PricewaterhouseCoopers resigned as auditors on 14 October 2002 and the board appointed PKF on that date. A resolution to re-appoint PKF as auditors to the Corporation will be proposed at the Annual General Meeting.

By order of the board

Law Debenture Corporate Services Limited
Secretary



25 February 2003

Corporate governance

The directors consider that during the year, the Group has complied with all the provisions of the Combined Code on corporate governance. The Group's approach to these matters is set out below.

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, Remuneration and Nomination Committees with specific terms of reference, the membership of which is shown on page 7. Matters specifically reserved for board decision have been defined and procedures put in place to enable independent professional advice to be taken by individual directors at the Corporation's expense.

Audit Committee and internal controls

The board monitors the effectiveness of internal controls in a number of ways, both directly through main board general reviews and also via the more specific work carried out for the Audit Committee. The various mechanisms can be summarised as follows:

- Board review of the Group's matrix of risks and controls, which has been updated during the year
- An internal audit function which involves not only each business department being subject to audit on a regular basis but also regular reviews of other business wide processes
- Detailed testing by the Compliance Officer of all FSA regulated business systems and controls
- The use of specific software, which is designed to assist with risk management within the Group
- Review of reports by the external auditors on their annual audit work and specific checks carried out on behalf of Treasury Management clients

The internal audit programme and system of compliance checks have both been developed using a risk-based methodology and an evaluation of process controls. They are designed to lead to a process of continuous improvement in systems and in the application of best practice.

The board considers that the above measures constitute continuing application of the Turnbull guidance and form an important management tool in the monitoring and control of the Group's operational risks.

An important element of the overall controls remains a continuous review of the quality and effectiveness of internal financial controls of the Group. During the year, the Audit Committee has continued to require that the Group maintains proper accounting records, so that it can rely on the financial information to make appropriate business decisions and also that the Group's assets are safeguarded. Key elements of the systems of internal control continue to be:

- 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

Corporate governance continued

- 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 a regular 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 at each board meeting, the review of all transactions with the investment manager and regular reconciliations of the records of the Group with those of the global custodian and investment data services provider
- frequent and detailed reports received about the trustee businesses, including reports (and attendance of board meetings from time to time) from the Managing Directors of overseas subsidiaries.

The systems of internal financial control are designed to provide reasonable but not absolute assurance against material misstatement or loss.

By means of the procedures set out above, the directors have established a process for identifying, evaluating and monitoring the effectiveness of the internal control systems for the period. This process has been in place throughout 2002 and will be reviewed by the board on a regular basis going forward.

The Audit Committee meets regularly and its current members are Mr K.W.B. Inglis (Chairman), Mr A.C. Cates and Mr D.C.P. McDougall.

Remuneration Committee

The Committee met three times during 2002 in the discharge of its duties. In accordance with new statutory requirements, the directors' remuneration report commences on the opposite page.

Nomination Committee

The Committee was established in 2002 and has only recently begun to meet. Its membership is comprised solely of non-executive, independent directors. The Committee is monitoring closely the implications for the Corporation's board of the Higgs and Smith reports and will make recommendations to the board about its composition, once those reports are published in final form.

Remuneration report

Dear Shareholder

In accordance with the Directors' Remuneration Report Regulations 2002, and the Companies (Summary Financial Statement) Amendment Regulations 2002, I submit the remuneration report for The Law Debenture Corporation p.l.c. for 2002. With effect from financial years ending 31 December 2002, listed companies are required under the new Regulations to present a remuneration report, which must contain specific and detailed information about the way directors of the Corporation are remunerated, and the amounts they receive. Some of the information is historical, some forward looking. Those sections that have been audited in accordance with the Regulations are shown at the top of each relevant paragraph.

As required by the Regulations, the remuneration report will be put to shareholders for approval as an ordinary resolution at the annual general meeting.

Douglas McDougall
Chairman, Remuneration Committee

Remuneration Committee - membership and advisers

The board has delegated responsibility for consideration of all matters relating to directors' remuneration to a Remuneration Committee. All of the members of the Committee are non-executive directors, being at the date of this report Mr Douglas McDougall (Chairman), Mr Arnel Cates and Mr Ken Inglis. Each of these served throughout the year to 31 December 2002. There were no other members of the Committee during this period.

The Committee met three times during the year. The Managing Director attended all meetings of the Committee at the invitation of the Chairman (although she was not present when details of her own remuneration were discussed) and Mr Robert Williams, an executive director, attended one meeting at the invitation of the Chairman. The Managing Director, Mr Williams, and the Company Secretary provided advice when called upon to do so. As for external advisers, the Committee appointed Lesley Pearson, a Remuneration Consultant, to undertake a salary benchmarking exercise, and Linklaters to advise on the Executive Share Option Scheme and the Sharesave Scheme, both of which were adopted by the shareholders at the 2002 AGM. Linklaters did not provide any other advice to the Committee, although it does provide advice on certain trustee and other matters to the Corporation and various subsidiaries, fees incurred in respect of such work generally being recoverable by Law Debenture from other parties.

The Committee complies with the principles of good governance and Code of Best Practice in the listing rules of the Financial Services Authority. To the extent required by statute, disclosures in this Remuneration report have been audited - the independent auditors' report appears on page 34.

The Corporation's remuneration policy

The Remuneration Committee and the board recognise that the Corporation and its subsidiaries work in competitive markets. The aim of the Corporation is to ensure that remuneration packages offered to executive directors and senior executives are competitive, and designed to attract, retain and motivate individuals of the highest calibre.

The Remuneration Committee operates, and will continue in the future to operate, in accordance with key principles which are:

- Remuneration packages should be competitive but not extravagant, and should broadly be in line with average packages in the markets in which Law Debenture operates;
- There should be a clear link between total remuneration and performance.

The major components of Law Debenture's remuneration packages for executive directors and senior executives comprise: basic salary; general bonus scheme which, subject to shareholder approval at the 2003 AGM may be invested in a Share Incentive Plan, calculated by reference to the success of the Corporation's trustee and related businesses; executive share options, granted periodically and phased in over a period of years, with demanding performance criteria set by the Remuneration Committee; discretionary bonus based upon trustee and related business performance and the attainment of personal targets; pensions provision in a funded non-contributory, Inland Revenue approved, final salary occupational pension scheme; and participation in a Sharesave Scheme. Details of the policy applied in each component are outlined below. These apply to the executive directors only. Non-executive directors receive flat rate fees as described elsewhere in this report, but do not receive any other benefits.

The executive directors during the period of this report were:

- Mrs Caroline Banszky (appointed to the Board on 29 January 2002, and as Managing Director on 9 April 2002);
- Mr Christopher Duffett (Managing Director until 9 April 2002). Due to deteriorating health, Christopher Duffett went on permanent sick leave from 9 April 2002. He remained an employee, receiving full pay for six months from that date, then transferring to the Corporation's Disability Income Plan where, in agreement with the Plan insurers, the Plan will pay him 60.5% of his leaving salary until he reaches his normal retirement date in August 2003. The impact of this on his benefits is described more fully below.
- Mr Robert Williams (part time executive director).

The policy applied in respect of each component of the remuneration package for the executive directors is as follows.

1. Basic salary

Basic salaries are set at levels consistent with individual performance, and the market rates applicable to jobs of similar complexity and responsibility. To measure this, the Remuneration Committee engages an independent Remuneration Consultant. The salaries of the executive directors, which are described at paragraph 10 below, are reviewed annually by the Remuneration Committee.

The executive directors also received non-pensionable cash payments being a car allowance, and in the case of Mr Duffett, a mortgage subsidy. These are included within salary/fees at paragraph 10. Non-cash benefits include private health cover, life insurance cover and the Disability Income Plan. The estimated money value of these components is set out in the table at paragraph 10.

2. General bonus scheme

Mr Williams participates in the Corporation's general bonus scheme on the same basis that applies to all members of staff. A cash payment will be made in April 2003. The amount of the payment is not guaranteed and will be calculated by reference to a number of factors relating to the trustee and related businesses, including profitability and the growth in profits. The bonus is paid as a percentage of basic salary, and all qualified employees receive a bonus calculated at the same percentage. In 2003, the general bonus scheme payments to Mr Williams (and to all other members of staff) will be 6% of basic salary. There are no performance conditions specific to any individual in order to qualify for receipt of a general bonus payment, although certain qualification conditions do apply. In particular, an executive director (and any other staff member) must have been employed for at least three months at the close of the financial year. He/she will receive a pro-rated payment for the period that he/she was employed during the year, if more than three months but less than twelve, and entitlement to the payment will be withdrawn if the executive director is not employed, or has given, or been given notice to leave, as at 31 March 2003. Subject to shareholder approval at the 2003 AGM, participants in the general bonus scheme, including Mr Williams, will be entitled to place all or part of their general bonus scheme payment into an Inland Revenue approved Share Incentive Plan.

Mr Duffett was entitled to participate in the general bonus scheme until he went on sick leave (9 April 2002) and will accordingly receive in April 2003 a payment of 6% of his pensionable salary, pro-rated for the period 1 January to 9 April 2002.

3. Executive share options

A summary of executive share options granted in previous years to the executive directors is set out at paragraph 12 of this report.

The performance conditions that apply before an executive director is entitled to exercise his/her options are as follows:

- Options granted in 1994, 1995 and 1998 (tranche A)

The performance criteria in respect of these options have already been met and Mr Duffett (the only executive director who received options in these years) is entitled to exercise options as described in paragraph 12. His entitlement to exercise remains in place until 23 February 2004, being six months after his normal retirement date.

- Options granted in 1998 (tranche B)

Mr Duffett is the only executive director to have received 1998 tranche B options. The performance conditions for these run for five years, until 4 December 2003 and are that trustee profits must have grown at a rate of inflation plus 5% over the period. However, since this date is after Mr Duffett's normal retirement date, then under the terms of the Executive Share Option Scheme applicable when these options were granted, he can exercise his 1998 tranche B options at any time between his normal retirement date and 23 February 2004, being six months later, irrespective of whether the performance conditions are met.

- Options granted in 2002

Options were granted to Mrs Banzky in 2002, as set out at paragraph 12. The options will become exercisable from 2 August 2007, but only if the profits of the trustee and related services of the Corporation and its subsidiaries grow at an annual rate of 4% plus inflation over the five years ending 31 December 2006. The 'profits of the trustee and related services' mean the amount shown as such in the notes to the Corporation's consolidated accounts. If this condition is not met in the year ending 31 December 2006, it will be successively re-tested at the end of the next two years as necessary, using the annual average rates then applicable. If the condition is still not met following re-testing, the options lapse.

- Options granted or to be granted in 2003

No options have been granted to executive directors in the year 2003 up to the date of this report. No executive director has a contractual entitlement to receive a grant of executive share options in any given year, so it will be at the discretion of the Remuneration Committee as to whether or not grants of options are made under the Executive Share Option Scheme later in the year. Should a grant be made, then performance conditions will be set which are no less challenging than those attaching to the grant of options in 2002.

No options on shares have been granted to Mr Williams under the Executive Share Option Scheme.

4. Senior Executive Discretionary Bonus Scheme

Mr Williams and Mrs Banszky are entitled to receive discretionary bonuses (incentive payments) in 2003 at whatever time and of whatever amount the Remuneration Committee decides is appropriate in its sole and absolute discretion in respect of their performance in 2002. These payments will be made in March 2003 and were £55,000 for Mrs Banszky and £4,000 for Mr Williams. In assessing what bonus or incentive payment should be awarded, account is taken of any factors that the Remuneration Committee reasonably consider appropriate, including the financial performance and position of the company and performance against any objectives that have been set. A number of the Corporation's senior executives are similarly entitled. There is no contractual entitlement that says an incentive payment must be paid in any given year, and entitlement is lost if, on the date that incentive payments are paid, a participant is no longer employed by the Corporation, or either the participant or the Corporation has served notice to terminate employment. Incentive payments are not taken into account in calculating pension contributions. The discretionary bonus payment received in 2002 by Mr Williams was £4,000, which together with his general bonus, gave him a total bonus of £8,276. Mrs Banszky did not receive any discretionary bonus in 2002. Up to the allowable limit, her bonus of £55,000 in respect of 2002 and payable in 2003, will be eligible to be placed in the Share Incentive Plan.

Mr Duffett received £17,000 in 2002 in respect of his employment in 2001, which combined with his general bonus, gave him a total bonus of £33,524. He will not receive a discretionary bonus in 2003 in respect of his employment during 2002.

5. Save As You Earn (SAYE) Sharesave Plan

Subject to eligibility conditions concerning length of service, the executive directors (in common with all of the members of staff) are entitled to participate in the Corporation's SAYE Scheme. The extent of participation by the executive directors in the Scheme, including a list of the numbers of shares over which they hold options as part of the Scheme, is shown in the table at paragraph 13.

In 2002, the shareholders approved the introduction of The Law Debenture Corporation p.l.c. SAYE Share Save Scheme 2002. This replaced a similar scheme that had operated since 1993. Under the terms of the Scheme, which is approved by the Inland Revenue under paragraph 1, Schedule 9 Income and Corporation Taxes Act 1988, eligible participants (including executive directors) are entitled to make monthly savings direct from post tax pay, with a guaranteed tax-free return after five years. The amount to be saved can range from £5 per month to a maximum of £250 per month. On joining the scheme, savers are given an option to acquire shares in the Corporation at the end of the five year saving period, at a price fixed at the beginning of the saving period. The fixed price is the net asset value per ordinary share on the date when eligible participants are invited to join the plan. Invitations to participate are issued annually to eligible employees, but the total monthly payments that any individual makes (in respect of the aggregate of all years in which they have chosen to participate) must not exceed £250.

At the end of the five year saving period, participants receive a tax free bonus equal to 6.2 further months' savings. Under the terms of the 1993 predecessor scheme - in which Mr Williams is a participant - the tax free bonus was 9 months' savings for schemes started in 1998, and 7.5 months for schemes started in 1999, 2000 and 2001. The number of shares that participants can purchase after five years is determined at the beginning of the saving period by the total amount to be saved plus the bonus, divided by the option price. At the end of a saving period, participants may choose to apply the amount saved to exercise the options over the shares notified at the outset of the saving period, or they may choose to relinquish their options in favour of receiving a cash repayment of all of their contributions, plus the bonus.

6. Pensions provision

Mrs Banszky is a member of the Corporation's funded non-contributory, Inland Revenue approved, final salary occupational scheme. Details of her membership of the scheme are contained in the table at paragraph 10. The rules relating to the earnings cap (currently £97,200 per annum) mean that Law Debenture has to restrict the pension benefit payable to the Managing Director. Pursuant to her service contract and as compensation for the effect of this restriction, the Corporation pays the Managing Director a cash non-pensionable amount equal to the sum of 20% of the difference between (i) the Inland Revenue permitted maximum for the time being and (ii) her base salary. In addition for 2002 only, she was paid 5 per cent of the cap. These amounts are paid monthly in arrears accruing from day to day after the deduction of income tax and national insurance.

For the period from 9 April 2002 to his normal retirement date, Mr Duffett remains a member of the Corporation's pension scheme. No additional pension contributions have been made on his behalf. He has not received any retirement benefits, nor will he do so until he reaches normal retirement date. Details of his membership of the scheme are contained at paragraph 11.

Mr Williams is not a member of the Corporation's pension scheme. Reflecting this, his basic salary contains an element 'in lieu' of a contribution on his behalf to a pension scheme.

7. Service contracts

Details of the executive directors' service contracts are as follows:

	Date of Contract	Notice Period
Mrs Caroline Banszky	9 November 2001	6 months
Mr Robert Williams	26 February 2002	6 months

The executive directors' employment is not for a fixed term. There are no contractual provisions for compensation payable upon early termination (with notice) of the contract. There is an entitlement to receive salary and benefits during the period of notice, which may be paid 'in lieu' of all or part of any period of notice. There are no entitlements to payments of any sort in the event that the Corporation summarily terminates an executive director's employment.

In the event that the Corporation gives the Managing Director notice to terminate employment within twelve months of any change in control of the company, the company must give not less than twelve months' written notice, and the same arrangements for receiving salary and benefits during this period (including payments 'in lieu') also apply as described above.

8. Remuneration of non-executive directors

The non-executive directors are paid a single, flat fee for their services, as set out in paragraph 10. They may also claim travelling expenses.

The fee for the Chairman reflects the additional responsibility and time commitment required of him; the fee for Mr Edwards reflects the fact that he is also Chairman of L.D.C. Trust Management Limited, the principal management company overseeing the trustee and related businesses.

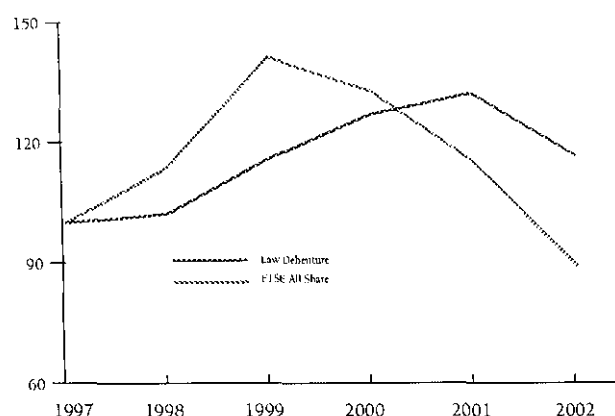
The fees are reviewed by the Remuneration Committee, on advice from the executive directors, who from time to time undertake comparative studies to ensure that the Corporation's fee levels are consistent with the marketplace. The fees were last reviewed in July 2001. There are no current plans to review the fees during 2003. The flat fee is not contingent upon attendance at a set number of board meetings; all directors are expected to attend all meetings, barring unforeseen circumstances. The attendance record of the non-executive directors at meetings of the Corporation's board is as follows:

Number of Board meetings attended in 2002

Mr DCP McDougall	9/9
Mr AC Cates	9/9
Mr J Edwards	8/9
Mr KWB Inglis	9/9

Each non-executive director is appointed for an indefinite term, subject to periodic re-election by the shareholders in accordance with the Articles of Association. There are no provisions in any of the non-executive directors' letters of appointment for compensation payable on early termination of the directorship.

9. Performance Graph



Notes

1. The graph shows the total shareholder return of a nominal holding of £1,000 of Law Debenture's shares measured against the total shareholder return of a nominal holding of £1,000 invested in the FTSE All Share Index over a five year period.
2. Dividends have been reinvested.

10. Directors' emoluments (audited)

	Total salary/ fees	Total bonus	Expenses allowance chargeable to tax	Benefits other than in cash	Total received in 2002	Total received in 2001
	£	£	£	£	£	£000
Mr CCB Duffett	62,015*	33,524	—	2,714*	98,253	250
Mrs CJ Banszky	235,939**	—	—	376**	236,315	—
Mr AC Cates	25,000	—	—	196	25,196	25
Mr J Edwards	30,000	—	—	163	30,163	30
Mr KWB Inglis	25,000	—	—	163	25,163	25
Mr DCP McDougall	45,000	—	—	191	45,191	45
Mr RJ Williams	63,885	8,276	—	1,148	73,309	70

Notes

1. * The data for Mr Duffett covers the period until he ceased to be a director (9 April).
- ** The data for Mrs Banszky covers the period from the date that she became a director (29 January).
2. No director received compensation for loss of office, or any other payments in connection with the termination of qualifying services.
3. Benefits other than in cash are: private health cover (Mr Williams and Mr Duffett only); life assurance and Disability Income Plan (Mrs Banszky and Mr Duffett); board dinners (all directors).
4. Total salary/fees comprises basic salary plus non-pensionable cash allowances as set out in paragraphs 1 and 6, totalling £2,477 for CCB Duffett, £34,272 for Mrs Banszky and £7,920 for Mr Williams.

11. Annual pension entitlements upon reaching retirement age (audited)

	Increase in accrued pension during 2002	Accumulated total accrued pension at 31 December 2002	Transfer value as at 31 December 2001	Transfer value as at 31 December 2002	Increase in transfer value
	£pa	£pa	£000	£000	£000
CCB Duffett	10,328	122,736	1,732	1,950	218
CJ Banszky	1,485	1,485	0	14	14

1. The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 2002
2. The increase in accrued pension during the year includes any increase for inflation
3. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11
4. Any Additional Voluntary Contributions ("AVCs") are excluded from the above table. For the sake of full disclosure, neither Mr Duffett nor Mrs Banszky made AVCs during the year.

12. Executive Share Option Scheme (audited)

	Interest at 31.12.01*	Granted in 2002	Exercised in 2002	Interest as at 31.12.02**	Exercise price	Earliest exercise	Latest exercise
CCB Duffett							
1994	50,000	—	—	50,000	148.40p	17.05.97	23.02.04
1995	50,000	—	—	50,000	162.60p	25.05.98	23.02.04
1998							
Tranche A	75,000	—	—	75,000	212.10p	04.12.01	23.02.04
Tranche B	75,000	—	—	75,000	212.10p	24.08.03	23.02.04
CJ Banszky	—	31,205	—	31,205	211.50p	02.08.07	01.08.10

* For Mrs Banszky, the period begins on her date of appointment, 29 January 2002

** For Mr Duffett, in accordance with the reporting requirements, the figures are as at the date he ceased to be a director (9 April 2002)

No options expired unexercised in the year, and none of the terms and conditions relating to any of the options were varied during the year

The market price at the beginning of the year was £2.335; the highest price during the year was £2.585; the lowest price was £1.69.

13. Save As You Earn Share Save Plan (audited)

	Interest at 31.12.01*	Interest acquired in 2002	Exercise price	Market price at invitation date	Exercised in 2002	Interest at 31.12.02**	Earliest exercise	Latest exercise
CCB Duffett	10,015	—	172.2p	189.8p	—	10,015	01.07.02	01.01.03
CJ Banszky		7,350	225.1p	254.2p	—	7,350	01.08.07	01.02.08
RJ Williams	7,335	—	230.0p	206.1p	—	7,335	01.07.05	01.01.06

* For Mrs Banszky, the period begins on her date of appointment, 29 January 2002

** For Mr Duffett, in accordance with the reporting requirements, the figures disclosed are as at the date he ceased to be a director (9 April 2002)

None of the terms and conditions relating to any of the options held under this scheme was varied during the year.

Independent auditors' report

To the members of The Law Debenture Corporation p.l.c.

We have audited the financial statements of The Law Debenture Corporation plc for the year ended 31 December 2002 which comprise the statement of total return, the balance sheets, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the corporate governance statement reflects the Corporation's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises the chairman's statement, the operating reviews, the directors' report, the corporate governance report and the unaudited part of the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

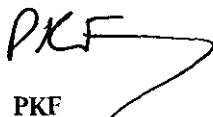
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Corporation and the Group at 31 December 2002 and of the total return of the Group for the year then ended; and the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.



PKF

Chartered Accountants and Registered Auditors

London, 25 February 2003

Consolidated statement of total return

for the year ended 31 December

	Notes	2002			2001 (as restated)		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Total capital losses from investments	2	—	(60,467)	(60,467)	—	(34,684)	(34,684)
Income from investments and deposits	3	9,287	—	9,287	9,226	—	9,226
Trustee and other fee income	4	13,257	—	13,257	11,663	—	11,663
Underwriting commission and other income		217	—	217	53	—	53
Gross revenue and capital losses		22,761	(60,467)	(37,706)	20,942	(34,684)	(13,742)
Administrative expenses	5	(11,822)	—	(11,822)	(9,636)	—	(9,636)
Return, including profit on ordinary activities before interest payable and taxation		10,939	(60,467)	(49,528)	11,306	(34,684)	(23,378)
Interest payable	7	(2,451)	—	(2,451)	(2,479)	—	(2,479)
Return, including profit on ordinary activities before taxation	8	8,488	(60,467)	(51,979)	8,827	(34,684)	(25,857)
Taxation	9	(1,086)	—	(1,086)	(639)	—	(639)
Return, including profit attributable to shareholders		7,402	(60,467)	(53,065)	8,188	(34,684)	(26,496)
Dividends	10	(8,073)	—	(8,073)	(8,057)	—	(8,057)
Transfer (from)/to reserves		(671)	(60,467)	(61,138)	131	(34,684)	(34,553)
Return per share (pence)	11	6.33	(51.72)	(45.39)	7.02¹	(29.72)¹	(22.70)¹
Diluted return per share (pence)	11	6.26	2	2	6.88¹	2	2

Statement of total recognised gains and losses

for the year ended 31 December

	2002			2001 (as restated)		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Return for the financial year	7,402	(60,467)	(53,065)	8,229	(34,684)	(26,455)
Total recognised gains and losses relating to the year	7,402	(60,467)	(53,065)	8,229	(34,684)	(26,455)
Prior year adjustment	(50)	—	(50)	—	—	—
Total gains and losses recognised since last annual report relating to the year	7,352	(60,467)	(53,115)	8,229	(34,684)	(26,455)

Notes

The revenue columns of this statement represent the profit and loss accounts of the Group

¹ Values restated following share split in August 2002

² No dilutive effect

Balance sheet

as at 31 December

	Notes	Group		Corporation	
		2002 £000	2001* £000	2002 £000	2001 £000
Fixed assets					
Tangible	12	1,264	1,240	—	—
Investments	13	232,313	293,027	228,909	288,799
		<u>233,577</u>	<u>294,267</u>	<u>228,909</u>	<u>288,799</u>
Current assets					
Debtors	14	8,997	12,294	4,952	7,694
Short term cash investments		10,490	13,303	2,209	1,883
Bank balances and short term deposits		9,013	7,515	1,247	109
		<u>28,500</u>	<u>33,112</u>	<u>8,408</u>	<u>9,686</u>
Creditors					
Amounts falling due within one year	15	(13,860)	(18,699)	(51,193)	(53,338)
Net current assets/(liabilities)		<u>14,640</u>	<u>14,413</u>	<u>(42,785)</u>	<u>(43,652)</u>
Total assets less current liabilities		<u>248,217</u>	<u>308,680</u>	<u>186,124</u>	<u>245,147</u>
Creditors					
Amounts falling due after more than one year	16	(48,586)	(48,311)	(498)	(523)
Provision for liabilities and charges	17	(63)	(50)	—	—
Net assets		<u>199,568</u>	<u>260,319</u>	<u>185,626</u>	<u>244,624</u>
Capital and reserves					
Called-up share capital	18	5,851	5,840	5,851	5,840
Share capital redemption reserve		8	8	8	8
Share premium account	19	6,141	5,765	6,141	5,765
Capital reserves - realised	20	168,080	169,845	168,213	169,966
Capital reserve - unrealised	20	4,763	63,465	2,059	59,688
Revenue reserves	21	14,725	15,396	3,354	3,357
Shareholders' funds - equity	25	<u>199,568</u>	<u>260,319</u>	<u>185,626</u>	<u>244,624</u>

Approved by the board on 25 February 2003
and signed on its behalf by

D.C.P. McDougall

C.J. Banszky

Handwritten signatures:
D.C.P. McDougall
C.J. Banszky

The annexed notes form part of these accounts.
* as restated

Group cash flow statement

for the year ended 31 December

	Notes	2002		2001	
		£000	£000	£000	£000
Net cash inflow from operating activities	23		11,209		14,258
Servicing of finance					
Debenture interest paid.....		(2,450)		(2,450)	
Bank interest paid.....		(1)		(29)	
			(2,451)		(2,479)
Taxation			(917)		(594)
Financial investment					
Purchase of investments.....		(55,898)		(50,857)	
Sale of investments.....		54,834		44,347	
			(1,064)		(6,510)
Capital expenditure					
Purchase.....		(305)		(287)	
Sale.....		1		-	
			(304)		(287)
Equity dividends paid			(8,063)		(8,004)
Management of liquid resources					
Cash withdrawn from/(placed on) short term deposits.....			2,813		(4,364)
Financing					
Proceeds of increase in share capital.....		387		299	
Cash inflow/(outflow) from debt repayment.....		542		(314)	
			929		(15)
Increase in cash			2,152		(7,995)
Reconciliation of the movement in net debt					
Increase in cash as above.....			2,152		(7,995)
Cash inflow/(outflow) from liquid resources.....			(2,813)		4,364
			(661)		(3,631)
Exchange movements.....			(112)		5
Amortisation of debenture costs.....			(27)		(27)
Net debt brought forward.....			(18,904)		(15,251)
Net debt carried forward	24		(19,704)		(18,904)

Notes to the accounts

1 Statement of accounting policies

(i) **Convention:** The financial statements have been prepared on the historical cost basis of accounting modified to include the revaluation of investments. The financial statements 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 financial statements incorporate the financial statements 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:**

a) **Investment Trust:** Dividends receivable from equity shares are taken to the revenue account on an ex-dividend basis; interest payable and receivable are accounted for on an accrual basis; 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; expenses of the investment trust are all allocated to revenue

b) **Trustee services:** Bank deposit interest receivable, recurring fees receivable, administration expenses and interest payable are all accounted for on an accruals basis; where single payments are received relating to trusteeships with a duration of one or more years, that part relating to the year of receipt is accounted for on an accruals basis with the balance deferred into future years; fees calculated by reference to time spent are credited when billed; other 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 expense.

(iv) **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 improvementsover the lease period
Office furniture and equipment3 – 10 years

(v) **Listed investments:** The market valuation of listed investments is based on closing middle market prices. No taxation or expenses which might result from a sale of the investments at the balance sheet date have been taken into account.

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

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

(viii) **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.

(ix) **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.

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

(xi) **Financial instruments:** In accordance with FRS4 "Capital Instruments", long term borrowings are stated at the amount of net proceeds immediately after issue. The finance costs on such borrowings, being the difference between the net proceeds of a borrowing and the total payments that may be required in respect of that borrowing, are allocated to periods over the term of the debt at a constant rate on the carrying amount.

Notes to the accounts continued

1 Statement of accounting policies continued

(xii) **Liquid resources:** For the purposes of analysing assets, liquid resources include all readily realisable short term investments such as in money market funds as well as bank deposits.

(xiii) **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.

(xiv) **Deferred taxation:** Deferred taxation is provided for using the full provision method following the adoption of Financial Reporting Standard No. 19. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. This represents a change in accounting policy as more fully disclosed in note 17 as deferred tax was previously provided for using the partial provision method to the extent that it was probable that a liability would crystallise.

2 Total capital losses from investments

	2002 £000	2001 £000
Realised (losses)/gains based on historical cost	(1,844)	2,761
Less: amounts recognised as unrealised in previous years	(3,306)	(27,100)
Realised losses based on carrying value at previous balance sheet date	(5,150)	(24,339)
Unrealised losses on investments	(54,865)	(10,350)
Net (losses)/gains on translation of foreign currency balances	(452)	5
	<u>(60,467)</u>	<u>(34,684)</u>

3 Income from investments and deposits

	2002 Total £000	2001 Total £000
UK		
Listed dividends		
Dividend income	6,633	6,566
Special dividends	149	—
Interest	855	1,086
	<u>7,637</u>	<u>7,652</u>
Overseas		
Dividends	1,622	1,545
Interest	28	29
	<u>1,650</u>	<u>1,574</u>
Total	<u>9,287</u>	<u>9,226</u>

Notes to the accounts continued

4 Trustee and other fee income

	2002 £000	2001 £000
Geographical analysis by location of client		
United Kingdom	6,598	6,584
Overseas	6,659	5,079
	<u>13,257</u>	<u>11,663</u>

5 Administrative expenses

	2002 £000	2001 £000
Administration expenses include:		
Salaries and directors' fees	4,082	3,294
Social security costs	418	375
Other pension costs	958	697
Employee bonus plan	206	241
Investment management fee	541	666
Depreciation	229	190
Office rent	908	978
Auditors' remuneration*	49	51

*(including the Corporation £13,000 (2001: £15,000))

During the year, the Corporation employed an average of 75 staff (2001: 69). All staff are engaged in the provision of trustee and related services.

Other fees paid to the former auditors during the year amounted to £47,000 (2001: £62,000) in respect of taxation and other services. These figures do not include fees receivable by the auditors for work undertaken by them in connection with trusts (for example, pension funds) of which a member of the Group acts as trustee and whose trust deed requires or permits professional advice to be obtained or audits to be undertaken. These figures do include fees for audits of certain trusts of which a member of the group is a trustee, where the trustee has voluntarily commissioned an audit.

Notes to the accounts continued

6 Remuneration of directors

	2002 £000	2001 £000
Directors' emoluments, which comprise the following, are included in administration expenses:-		
Directors' fees.....	125	127
Management remuneration.....	408	320
	<u>533</u>	<u>447</u>

The emoluments of the highest paid director totalled £313,000 (2001: £293,000) and included pension contributions of £22,000 (2001: £43,000) and amounts accrued under the terms of the employee bonus plan of £55,000 (2001: £16,000). Her accrued pension entitlement is as follows:-

	£,000
Increase during 2002 excluding inflation increase.....	<u>1</u>
Accumulated total accrued pension at 31 December 2002.....	<u>1</u>
Transfer value of increase in accrued pension based on actuarial advice.....	<u>14</u>

Annual pension entitlements shown above are based upon service up to 31 December 2002 and do not include any Additional Voluntary Contributions. There are no other directors for whom there is an accrued pension entitlement.

Details of options held and the emoluments of each director are shown in the Remuneration report starting on page 27.

7 Interest payable

	2002 £000	2001 £000
Interest on debenture stock.....	2,450	2,450
Interest on multi-currency bank loans.....	—	11
Interest on bank overdrafts.....	<u>1</u>	<u>18</u>
	<u>2,451</u>	<u>2,479</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:

	2002 £000	2001 £000
Investment trust.....	5,263	4,811
Trustee and related services.....	3,225	4,016
	<u>8,488</u>	<u>8,827</u>

Returns have been restated to include interest on balances of deferred income earned by trustee and related services under that heading. All other interest continues to be allocated to the investment trust.

9 Taxation

	2002 £000	2001 £000
Taxation, based on revenue for the year, comprises:		
UK corporation tax at 30% (2001: 30%).....	547	583
Adjustment in respect of prior years	34	(161)
	<u>581</u>	<u>422</u>
Overseas tax:		
Current tax on income for the year	246	157
Adjustments in respect of prior periods	246	-
	<u>1,073</u>	<u>579</u>
Total current tax charge		
Deferred tax	<u>13</u>	<u>60</u>
	<u>1,086</u>	<u>639</u>
Return on ordinary activities before tax	<u>8,488</u>	<u>8,827</u>
Tax on ordinary activities at standard rate 30%	2,546	2,648
Effects of:		
Expenses not deductible for tax purposes.....	25	29
Capital allowances in period in excess of depreciation.....	(15)	(41)
Tax credit on dividend income.....	(2,036)	(1,998)
Adjustments in respect of prior periods.....	280	(161)
Unrelieved withholding tax.....	143	118
Payment/(recovery) of overseas tax.....	42	(14)
Losses on overseas companies for which no tax relief arises.....	105	62
Other differences.....	(17)	(64)
	<u>1,073</u>	<u>579</u>

The Group expects that a substantial portion of its future income will continue to be in the form of UK dividend receipts, which constitute non-taxable income. On this basis, the group tax charge is expected to remain significantly below the 30% standard UK rate.

Notes to the accounts continued

10 Dividends on ordinary shares

	2002 £000	2001 £000
Dividends on shares comprise the following:		
Interim 2.66p (2001: 2.66p*)	3,111	3,105
Proposed final 4.24p (2001: 4.24p*)	4,962	4,952
Total for the year 6.90p (2001: 6.90p*)	8,073	8,057

*Restated following share split in August 2002

11 Return per share

Revenue return, including profit per share, is based on profits attributable of £7,402,000 (2001: £8,188,000).

Capital return per share is based on net capital losses for the year of £60,467,000 (2001 loss: £34,684,000).

The calculations of both revenue and capital returns per share are based on 116,910,732 (2001: 116,707,525) shares, being the weighted average number of shares in issue during the year. Diluted revenue and capital returns per share are calculated using 116,914,356 (2001: 119,117,975) shares being the diluted weighted average number of shares in issue during the year assuming exercise of options at less than fair value, and the revenue and capital returns shown above.

12 Tangible fixed assets

	Group		
	Leasehold improvements £000	Office furniture & equipment £000	Total £000
Cost			
Balance at 1 January 2002	741	870	1,611
Additions at cost	—	305	305
Disposals at cost	(4)	(103)	(107)
At 31 December 2002	737	1,072	1,809
Accumulated depreciation			
Balance at 1 January 2002	57	314	371
Provision for the year	46	183	229
Disposals	(4)	(51)	(55)
At 31 December 2002	99	446	545
Net book value at 31 December 2002	638	626	1,264
Net book value at 31 December 2001	684	556	1,240

The Corporation holds no tangible fixed assets.

Notes to the accounts continued

13 Investments

	Group		Corporation	
	2002 £000	2001 £000	2002 £000	2001 £000
Summary				
Listed on recognised stock exchanges at market value:				
In United Kingdom	166,776	200,703	163,480	196,642
Overseas	48,600	71,789	48,600	71,715
	215,376	272,492	212,080	268,357
Open ended investment companies	16,650	20,253	16,650	20,253
Unlisted at directors' valuation	287	282	89	99
	232,313	293,027	228,819	288,709
Shares in subsidiary undertakings at cost	—	—	90	90
Total investments	232,313	293,027	228,909	288,799

	Group £000	Corporation £000
Changes in investments		
Market value of investments at 1 January 2002	293,027	288,709
Unrealised net appreciation at 1 January 2002	(63,755)	(59,739)
Cost of investments at 1 January 2002	229,272	228,970
Currency translation differences	(35)	—
Additions at cost	51,875	51,850
Disposals at cost	(54,418)	(54,258)
Cost of investments at 31 December 2002	226,694	226,562
Unrealised net appreciation at 31 December 2002	5,619	2,257
Market value of investments at 31 December 2002	232,313	228,819

Included in investments in the Group balance sheet are subsidiary undertakings which are held in connection with the Group's trustee business and in which the Group holds all its voting rights. The following undertakings have 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 these undertakings is severely restricted by contractual agreements with other parties. The Group received a fee of £182,657 (2001: £118,741) in respect of these undertakings.

BHP SVC Limited	Granite Mortgages 01-1 plc
BHP SVC Pty Limited (incorporated in Australia)	Granite Mortgages 01-2 plc
Brambles SVC Limited	Granite Mortgages 02-1 plc
Brambles SVC Pty Limited (incorporated in Australia)	Granite Mortgages 02-2 plc
RTL Shareholder SVC Limited	

There were no amounts outstanding with these undertakings at the year end (2001: £NIL)

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. All subsidiaries are registered in England and Wales unless otherwise stated. All of the subsidiaries listed below are included in the consolidated financial statements. Other than Law Debenture Finance p.l.c., a group financing company, all subsidiaries are engaged in the provision of trustee and related services.

L.D.C. Trust Management Limited

†Law Debenture Corporate Services Limited

†Law Debenture Corporate Services Inc (Incorporated in New York)

†Law Debenture Finance p.l.c.

†Law Debenture Guarantee Limited

†Law Debenture Investment Management Limited

†Law Debenture Trust (Asia) Limited (incorporated in Hong Kong)

†Law Debenture Trust Corporation of New York (Incorporated in New York)

†Law Debenture Trustees Limited

†The Law Debenture Corporation (Deutschland) Limited

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

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

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

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

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

†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.

14 Debtors

	Group		Corporation	
	2002 £000	2001 £000	2002 £000	2001 £000
(a) Due within one year:				
Corporation and other taxes recoverable	614	860	319	565
Amounts due from subsidiary undertakings	—	—	2,700	3,200
Investments sold for future settlement	59	2,319	—	2,319
Trustee expenses recoverable	2,390	2,475	87	1
Prepayments and accrued income	5,234	6,237	1,322	1,213
Other debtors	689	390	513	383
	8,986	12,281	4,941	7,681
(b) Due after more than one year:				
Prepayments	11	13	11	13
	8,997	12,294	4,952	7,694

Notes to the accounts continued

15 Creditors: amounts falling due within one year

	Group		Corporation	
	2002 £000	2001 £000	2002 £000	2001 £000
Borrowings (note 26)	57	599	-	-
Amounts owed to subsidiary undertakings	-	-	45,127	43,109
Investments bought for future settlement	-	4,023	-	4,023
Corporation tax	364	431	-	-
Other taxation including social security costs	307	233	307	233
Trustee expenses payable	2,566	2,920	59	-
Accruals	836	1,000	705	977
Deferred income	3,871	3,709	15	15
Proposed final dividend	4,962	4,952	4,962	4,952
Other creditors	897	832	18	9
	<u>13,860</u>	<u>18,699</u>	<u>51,193</u>	<u>53,338</u>

16 Creditors: amounts falling due after more than one year

	Group		Corporation	
	2002 £000	2001 £000	2002 £000	2001 £000
Borrowings (note 26)	39,150	39,123	-	-
Deferred income	9,436	9,188	498	523
	<u>48,586</u>	<u>48,311</u>	<u>498</u>	<u>523</u>

17 Provision for liabilities and charges

	Group		Corporation	
	2002 £000	2001 £000	2002 £000	2001 £000
Deferred tax				
Balance at 1 January	50	-	-	-
Prior year adjustment	-	9	-	-
	50	9	-	-
Charge in year	13	41	-	-
Balance at 31 December	<u>63</u>	<u>50</u>	<u>-</u>	<u>-</u>

The adoption of FRS 19 requires a change in accounting policy so as to recognise in full deferred tax assets and liabilities that had not previously been recognised as they were not expected to crystallise in the foreseeable future. As a result the financial statements have been restated to reflect this change in accounting policy.

The directors consider the adoption of this policy gives a fairer presentation of the results and financial position of the Group and Corporation.

A change in accounting policy gives rise to a provision for deferred taxation as at 31 December 2002 of £63,000 of which £13,000 arises in the year ended 31 December 2002, £41,000 arises in the year ended 31 December 2001 and the balance of £9,000 relates to 2000 and prior periods. The prior period adjustment gives rise to a decrease in reserves of £50,000 (Note 21) which has been stated as a prior year adjustment in calculating total gains recognised since the last Annual Report in the Statement of Total Recognised Gains and Losses.

The change in accounting policy has resulted in an increase in the extra tax charge of £13,000 in the 2002 accounts and £41,000 in the 2001 accounts (Note 9)

Notes to the accounts continued

18 Share capital

	2002 £000	2001 £000
Authorised share capital		
133,000,000 ordinary shares of 5p each.....	6,650	6,650
	<u>6,650</u>	<u>6,650</u>
Allotted, issued and fully paid share capital		
117,021,660 (2001: 116,796,595) ordinary shares of 5p each	5,851	5,840
	<u>5,851</u>	<u>5,840</u>

During the year to 31 December 2002, 225,065 shares were allotted under the SAYE Scheme and Executive Share Option Scheme for a total consideration of £387,800 which includes a premium of £376,547

During the year, 91,415 options were granted under the Corporation's SAYE scheme and 31,205 under the Executive Share Option Scheme. At 31 December 2002, options under the schemes exercisable between 2003 and 2012 at prices ranging from 125.0p to 245.8p per share were outstanding in respect of 3,505,615 ordinary shares (2001: 3,620,560). During 2002, 12,500 options lapsed or were cancelled (2001: 22,760).

Further details of options outstanding are given in the directors' report on page 23. The number of shares and option prices above have all been restated in accordance with the share split that took place in August 2002.

19 Share premium account

	2002 £000	2001 £000
Balance at 1 January.....	5,765	5,475
Issue of shares.....	376	290
At 31 December	<u>6,141</u>	<u>5,765</u>

Notes to the accounts continued

20 Capital reserves

	Unrealised appreciation £000	Realised reserves £000	Total £000
Group			
Balance at 1 January	63,465	169,845	233,310
Transfer on disposal of investments	(3,305)	3,305	—
Net losses on investments	(54,865)	(5,150)	(60,015)
Net (losses)/gains on currency translation	(532)	80	(452)
At 31 December 2002	4,763	168,080	172,843
Corporation			
Balance at 1 January	59,688	169,966	229,654
Transfer on disposal of investments	(3,382)	3,382	—
Net losses on investments	(54,246)	(5,135)	(59,381)
At 31 December 2002	2,060	168,213	170,273

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 as previously stated	15,446	3,357
Prior year adjustment	(50)	—
Restated at 1 January	15,396	3,357
Net revenue retained for the year	(671)	(3)
Retained revenue at 31 December 2002	14,725	3,354

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 £8,069,000 (2001: £7,733,000).

Notes to the accounts continued

22 Financial instruments

The Group's investment objective is to achieve long term capital growth (and steadily increasing income) through investing in a diverse portfolio of investments spread both geographically and by sector. In pursuit of this objective, the Group has the power to deploy the following financial instruments:-

- Equities and fixed interest securities
- Cash, short term investments and deposits, and working capital arising from the Group's operations
- Debentures, term loans and bank overdrafts to allow the Group to raise finance
- Derivative transactions to manage any of the risks arising from the use of the above instruments

It remains the Group's policy that no trading in derivatives is undertaken.

The principal risks facing the Group in the conduct of its investment management are:-

- **market price risk**, arising from uncertainty in the future value of financial instruments. The Board maintains policy guidelines whereby a spread of investments in different geographical regions reduces the risk arising from factors relating to a particular country. In addition the stock selections and transactions are actively monitored throughout the year by the investment manager, who reports to the Board on a regular basis to review past performance and develop future strategy.
- **foreign currency risk**, arising from movements in currency rates applicable to the Group's assets, liabilities and transactions denominated in currencies other than sterling. Risks are reduced by an international spread of investments and selective currency borrowings at levels to ensure that such hedging is limited to the related asset exposure of each currency. The Group's assets and liabilities denominated in currencies other than sterling were:-

	2002		2001	
	Assets	Liabilities	Assets	Liabilities
	£ millions	£ millions	£ millions	£ millions
US Dollar	17.6	0.5	31.3	0.9
Euro	25.3	-	32.5	-
Danish Krone	1.4	-	2.1	-
Greek Drachma	0.5	-	0.8	-
Swedish Kroner	0.9	-	2.1	-
Swiss Franc	5.7	-	5.2	-
Hong Kong Dollar	0.3	-	0.5	-
	<u>51.7</u>	<u>0.5</u>	<u>74.5</u>	<u>0.9</u>

The holdings in the Henderson Japan Capital Growth and Pacific Capital Growth OEICs are denominated in sterling but have underlying assets in foreign currencies equivalent to £16.7 million.

Notes to the accounts continued

22 Financial instruments continued

- **liquidity risk**, arising from any difficulty in realising assets or raising funds to meet commitments associated with any of the above financial instruments. To minimise this risk, the Board's policy guidelines only permit investment in equities and fixed interest securities quoted in major financial markets. In addition, cash balances and overdraft facilities are maintained commensurate with likely future settlements. The liquidity profile of the Group's liabilities at 31 December 2002 was:-

	£ millions
Within one year	13.9
Between one and two years	1.1
Between three and five years	5.5
Over five years	41.9

Undrawn overdraft facilities of £443,000 are also available to the Corporation.

Of the Group's gross assets of £262 million, over 99% are realisable within one year.

- **interest rate risk**, arising from movements in interest rates on borrowing, deposits and short term investments. The Board reviews the mix of fixed and floating rate exposures and ensures that gearing levels are appropriate to the current and anticipated market environment. The Group's interest rate profile at 31 December 2002 was:-

	£ millions		
	Sterling	HK Dollars	US Dollars
Fixed rate assets	—	—	—
Floating rate assets	19.5	0.3	2.3
Fixed rate liabilities	39.2*	—	—
Floating rate liabilities	0.5	—	—
Weighted average fixed rate	6.13%		

* fixed for 32 years

- **credit risk**, arising from the failure of another party to perform according to the terms of their contract. In practice, the Board considers that this risk is low, since investment trust transactions are settled on the basis of delivery against payment.

Fair value

The directors are of the opinion that the financial assets and liabilities of the Group are stated at fair value in the balance sheet.

Notes to the accounts continued

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

	2002 £000	2001 £000
Return, including profit before interest payable and taxation	10,939	11,305
Depreciation charge	229	190
Increase in debtors	(233)	1,687
Increase in creditors	518	1,261
UK and overseas withholding tax deducted at source	(244)	(185)
Net cash inflow from operating activities	11,209	14,258

24 Analysis of net debt

	31.12.01 £000	Cashflow £000	Currency Exchange £000	31.12.02 £000
Bank balances & short term deposits	7,515	1,610	(112)	9,013
Overdrafts	(599)	542	-	(57)
Total	6,916	2,152	(112)	8,956
Debt due after one year	(39,123)	-	(27)	(39,150)
Current asset investments	13,303	(2,813)	-	10,490
Net debt	18,904	(661)	(139)	(19,704)

25 Reconciliation of movement in shareholders' funds

	2002 £000	2001 £000
Opening shareholders' funds	260,369	294,583
Prior year adjustment	(50)	-
Restated at 1 January 2002	260,319	294,583
Total return after dividend	(61,138)	(34,513)
Proceeds of issue of ordinary shares	387	299
Shareholders' funds at 31 December	199,568	260,369

The calculation of net asset value is based upon shareholders' funds of £199,571,000 (2001: £260,369,000) divided by 117,021,660 (2001: 116,796,595) shares in issue at 31 December each year. The fully diluted net asset value is based upon the diluted number of shares in issue of 117,023,420 (2001: 118,395,195) shares, assuming exercise of options at less than fair value. All references to shares in issue reflect the share split in August 2002.

Notes to the accounts continued

26 Borrowings

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

	Group		Corporation	
	2002 £000	2001 £000	2002 £000	2001 £000
Unsecured borrowings falling due within one year:				
Overdrafts.....	57	599	-	-
Note 15	57	599	-	-
Borrowings falling due after more than one year:				
Secured				
6.125% guaranteed secured bonds 2034.....	39,150	39,123	-	-
Note 16	39,150	39,123	-	-

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

The 6.125% bonds were issued by Law Debenture Finance p.l.c., and guaranteed by the Corporation. The £40 million nominal tranche, which produced proceeds of £39.1 million, is constituted by Trust Deed dated 12 October 1999 and the Corporation's guarantee is secured by a floating charge on the undertaking and assets of the Corporation. The stock is redeemable at its nominal amount on 12 October 2034. Interest is payable semi-annually in equal instalments on 12 April and 12 October in each year. In accordance with FRS 4, the finance costs of the borrowing (being the difference between proceeds and the eventual repayment amount) are allocated to future periods of its term at a constant rate on the carrying amount.

27 Contingent liabilities

In order to facilitate the activities of one of its US subsidiaries, a UK subsidiary of the Corporation has provided a guarantee in the amount of US\$50 million.

28 Lease commitments

	Land and buildings £000	2002 Other £000	Total £000	2001 Total £000
Less than one year	-	39	39	31
2 to 5 years	-	170	170	100
More than 5 years	908	-	908	908
	908	209	1,117	1,039

Notes to the accounts continued

29 Pension commitments

The Corporation operates a funded non-contributory defined benefit pension plan in the UK. The assets of the plan are held separately from those of the Corporation and are invested in managed funds operated by insurance companies. Contributions are charged to the statement of total return in accordance with SSAP 24, so as to spread the cost of pensions over employees' expected working lives with the Corporation. 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 last completed valuation was at 31 December 1999 and the actuary is yet to complete a further valuation as at 31 December 2002.

The pension charge for the year was £958,000 (2001: £697,000), the substantial increase reflecting not only increased staff numbers, but a recognition that falls in asset values required increased contributions, which have been increased as a percentage of basic salary as follows, in accordance with updated interim valuations by the actuary as follows:

2001.....	21.0%
2002.....	25.0%
From 1 January 2003	28.8%

The major assumptions in the 31 December 2002 disclosure under FRS 17 are shown below and are applied to membership data supplied at that date. This shows the net pension assets and liabilities that would be disclosed if the new accounting standard had been adopted.

	2002	2001
	%	%
RPI inflation	2.4	2.5
Discount rate	5.6	5.8
Pensions increases in payment	2.4	2.5
General salary increases	4.9	5.0

The assets in the plan and the expected rates of return (using estimates where necessary) were:

	2002		2001	
	Expected Return %	£000	Expected Return %	£000
Equities	7.4	8,393	8.0	9,329
Bonds	5.6	1,230	5.8	1,185
Gilts	4.5	1,067	4.8	1,162
Property	6.0	282	6.4	355
Cash	4.0	5	5.0	45
Pensioner annuities	5.6	684	5.8	753
Total market value of assets		11,661		12,829
Present value of liability		(16,922)		(14,273)
Deficit in the plan		(5,261)		(1,444)
Related deferred tax asset at 30%		1,578		433
Net pension liability		(3,683)		(1,011)

Notes to the accounts continued

29 Pension commitments continued

The impact of this revaluation on the Group's net assets and capital reserves would have been:

	2002 £000	2001 £000
Net assets excluding pension liability	199,568	260,369
Pension liability	(3,683)	(1,011)
Net assets including pension liability	<u>195,885</u>	<u>259,358</u>
Capital reserves excluding pension liability	172,843	233,310
Pension liability	(3,683)	(1,011)
Capital reserves including pension liability	<u>169,160</u>	<u>232,299</u>
Other finance income		
Expected return on pension plan assets	961	
Interest on pension plan liabilities	(848)	
Net return	<u>113</u>	
Statement of Total Returns Gains & Losses		
Actual return less expected return on pension plan assets	(2,721)	
Experience losses arising on plan liabilities	(59)	
Changes in assumptions underlying the present value of plan liabilities	(1,026)	
	<u>(3,806)</u>	
Movement in plan deficit during the year		
Deficit in plan at beginning of the year	(1,444)	
Movement in year:		
Current service cost (total)	(1,008)	
Aggregate contributions	884	
Other finance income	113	
Actuarial deficit as above	(3,806)	
Deficit in plan at end of the year	<u>(5,261)</u>	
History of experience gains and losses		
Difference between expected and actual return on plan assets:		
Loss	(2,721)	
Percentage of scheme assets	(23.3%)	
Experience gains and losses on plan liabilities		
Loss	(59)	
Percentage of the present value of the plan liabilities	(0.4%)	
Total amount that would be recognised in STRGL in future years		
Loss	(3,806)	
Percentage of the present value of plan liabilities	(22.5%)	

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. The directors will endeavour 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 the directors are aware, the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Corporation.

Capital gains tax

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.

Financial calendar

Dividend and interest payments

Ordinary shares

Interim announced July	paid September
Final announced February	paid April
6.125% guaranteed secured notes	paid April and October

Group results

Half year results	Announced in July
Full year results	Announced in February
Report and accounts	Published in March
Annual general meeting	Held in London in April

Payment methods for dividends

Dividends and interest can be paid to shareholders by means of BACS (Bankers Automated Clearing System). Mandate forms for this purpose are available on request from the Corporation's Registrars (see page 52).

Investment services to shareholders

The Corporation offers a package of services to enable investors to accumulate shareholdings conveniently and economically. Three separate methods of investment are currently available:

- **Individual Savings Account (ISA)**

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 ISA & PEP Office, FREEPOST, 55 Mansell Street, London E1 8BR.
Tel No: 020 7895 5600.

- **A monthly share savings plan**

For regular and lump sum savers the monthly savings plan enables investment from as little as £25 a month and has a dividend reinvestment facility. It is administered by Law Debenture Investment Management Limited, which can be contacted at:

The Administrator, The Law Debenture Corporation p.l.c. Share Savings Scheme, Fifth Floor, 100 Wood Street
London EC2V 7EX Tel: 020 7696 5295

Details are available on our website, <http://www.lawdeb.co.uk>

- **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: 020 7895 5489

References to services provided by members of the Royal Bank of Scotland Group have been approved by National Westminster Bank Plc, which is regulated by the FSA.

Law Debenture Investment Management Limited is regulated by the FSA.

NatWest Stockbrokers Limited a member of the Royal Bank of Scotland Group, is a member of the London Stock Exchange and regulated by the FSA.

Company advisers and information

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100 Wood Street
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Telephone: 020 7606 5451
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Investment portfolio manager

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3 Finsbury Avenue
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PKF
New Garden House
78 Hatton Garden
London EC1N 8JA

Global custodians

Bank of New York Limited
One Canada Square
London E14 5AL

Registrar and transfer office

Computershare Services PLC
PO Box 82
The Pavilions
Bridgwater Road
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Telephone: 0870 702 0001

Bankers

The Royal Bank of Scotland Group
Lloyds Bank TSB

Stockbrokers

Cazenove & Co
12 Tokenhouse Yard
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