THE LAW DEBENTURE CORPORATION p.l.c.

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2005

REGISTERED NUMBER 30397

From its origins in 1889, Law Debenture has diversified to become a group with a unique range of activities in the financial services sector. The group divides into two distinct complementary areas of business.

Investment trust

We are a global investment trust, listed on the London Stock Exchange.

Our portfolio of investments is managed by Henderson Global Investors Limited under a contract terminable by either side on 12 months' notice.

Our objective is 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 FTSE Actuaries All-Share Index through investing in a portfolio diversified both geographically and by industry.

Trustee and related services

We are a leading independent provider of professional trustee, fiduciary and related services (including corporate services and agent for service of process) to the wholesale markets and to occupational pension schemes. We have offices in London, New York, Hong Kong, the Channel Islands and the Cayman Islands.

Individuals, companies, agencies and organisations throughout the world rely upon Law Debenture to carry out its duties with the independence and professionalism upon which its reputation is built.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	**2005**
Net assets (£m)	169.2	190.6	233.0	250.2	287.6	294.6	260.3	199.6	241.7	272.5	**339.6**
Total return* (pence)	30.1	20.5	41.5	20.8	38.9	12.9	(22.7)	(43.8)	44.2	34.4	**64.7**
Earnings*(pence)											
Investment trust	4.16	4.96	5.46	5.62	5.57	5.45	4.07	4.10	4.51	5.06	**5.73**
Trustee and related services	1.20	1.64	1.74	1.72	2.13	2.40	2.98	2.23	2.40	3.51	**4.32**
	5.36	6.60	7.20	7.34	7.70	7.85	7.05	6.33	6.91	8.57	**10.05**
Dividends* (pence)	4.45	5.00	5.70	6.20	6.60	6.80	6.90	6.90	6.90	7.55	**9.05**
NAV* (pence) (after proposed final dividend)	148.9	164.4	199.8	214.2	246.5	252.6	222.9	170.5	201.9	228.1	**284.0**
Share price* (pence)	188.4	186.2	222.0	214.3	233.6	239.6	233.5	192.5	221.75	232.5	**288.75**
Premium/(discount) (%)	26.6	13.3	11.1	–	(5.2)	(5.1)	4.7	12.9	9.8	1.9	**1.7**
Market capitalisation (£m)	214.4	215.5	258.5	249.9	272.6	279.4	272.7	225.3	260.0	273.2	**339.7**
Cost of running investment trust (% of average portfolio value)	0.46	0.43	0.39	0.42	0.46	0.47	0.53	0.56	0.55	0.52	**0.51**

* Pence per share as restated following a five for one share split in August 2002.

The information in respect of 2003-2005 is in accordance with International Financial Reporting Standards (see page 62 for details). The information in respect of 1995-2002 is in accordance with UK Generally Accepted Accounting Principles.

Highlights

	31 December 2005 pence	31 December 2004 pence	Change %
Share price	**288.75**	232.50	24.2
NAV per share	**289.93**	232.85	24.5
NAV per share after proposed final dividend	**283.98**	228.10	24.5
Earnings per share			
– Investment trust	**5.73**	5.06	13.2
– *Trustee services*	**4.32**	3.51	23.1
Group earnings per share	**10.05**	8.57	17.3
Dividends per share	**9.05**	7.55	19.9

Performance

	2005 %	2004 %
Share price	**24.2**	4.8
NAV total return	**28.5**	16.7
FTSE All-Share Index total return	**22.0**	12.8

To 31 December 2005	5 years %	10 years %
NAV total return *	34.4	162.1
FTSE Actuaries All-Share Index total return *	11.6	113.9
Share price total return *	41.3	105.4
Change in retail price index *	12.4	28.5
Annual earnings growth	5.1	6.5
Annual dividend growth	5.9	7.4
Annual RPI change	2.4	2.5

* Source: AITC.

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

Douglas McDougall OBE (61)
Chairman
Chairman of The Independent Investment Trust plc, Foreign & Colonial Eurotrust PLC and 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. Chairman of the remuneration and nomination committees and a member of the audit committee.

Caroline Banszky (52)
Managing director
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.

Armel Cates (62)
Non-executive 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 chairman of the LDC Trust Management Limited board.

John Kay (57)
Non-executive director
Appointed to the board in September 2004. Business economist, writer and broadcaster. Visiting Professor at the London School of Economics. Founded London Economics, Britain's largest independent economic consultancy. Director of SVM UK Active Fund plc, Value and Income Trust plc and Clear Capital, an equity research boutique. He writes a weekly column for the Financial Times. Chairman of the audit committee and member of the remuneration and nomination committees.

Robert Williams (57)
Non-executive director
A former partner of Linklaters, specialising in international finance. A director of Edinburgh UK Smaller Companies Tracker Trust plc. Joined the board in 1993. Member of the LDC Trust Management Limited board. Part time executive director until 31 December 2004, thereafter non-executive.

Investment manager

James Henderson (44)
Joined Henderson Global Investors in 1983 and has been an investment trust portfolio manager since 1990, managing Lowland Investment Company plc since then. He first became involved in the management of Law Debenture's portfolio in 1994 and took over sole management of the portfolio in June 2003.

Performance

Over the year to 31 December 2005, our net asset value total return was 28.5% compared to a total return of 22.0% for the FTSE Actuaries All-Share Index.

Our gross revenue increased over the year by 15.6% from £30.6 million to £35.3 million. Profit attributable to shareholders was £11.8 million, an increase of 17.4% over the previous year as a result of a 13.2% improvement in the investment trust and a 23.3% improvement in trustee and related services. Improved company dividends increased the return from the investment trust and all our trustee related services businesses performed well.

Earnings and dividends

Earnings per share for the year to 31 December 2005 were 10.05p, an increase of 17.3% from last year. The board is recommending a final dividend of 5.95p per ordinary share (2004: 4.75p), which, together with the interim dividend of 3.10p (2004: 2.80p) gives a total dividend of 9.05p (2004: 7.55p), an increase of 19.9%. The final dividend will be paid, subject to shareholder approval, on 19 April 2006 to holders on the register on the record date of 17 March 2006. The policy of the company continues to be to seek growth in both capital and income.

Investment trust

Our portfolio has been managed throughout the year by James Henderson, who has an independent, value based approach to investment. During the year the total return on the portfolio, excluding trustee services profits and the impact of gearing, was 24.5%, ahead of the FTSE All-Share Index.

We continue to select investments on the basis of what appears most attractive in the conditions of the time. We will not pay unrealistically high prices but hope to be able to buy growth shares on reasonable terms. Our policy is to try to select attractive investments without regard to any investment style or fashion. We do not feel obliged to hold shares of any particular type of company or industry or market. We aim to achieve a better return than the FTSE All-Share Index by good stock picking. We believe that, in the long term, returns on equities will exceed the cost of our long term borrowing. Consequently we take on a level of gearing which we believe balances risk with the objective of increasing the return to shareholders.

Growth in the global economy has been reasonably strong, with favourable implications for company profits and stock markets. Higher energy and commodity prices did not create the inflationary pressures that might have been expected and company profits continued to improve.

In the UK, many companies have been benefiting from improved profitability and dividend growth has been strong.

Trustee and related services

Our trustee and related services business increased revenue by 16.9% and profit before tax by 22.9%. Most areas of the business have seen continued growth.

The commercial trust division had a busy year and a number of high profile appointments. Our pension trustee business has seen growth from new and existing relationships and expects the Pensions Act 2004 to continue to provide opportunities. Corporate services continue to grow significantly and service of process is benefiting from the links between London, New York and Hong Kong. The New York trust business has achieved a profit for the first time and continues to develop its business in niche markets. Hong Kong has significantly improved its results and achieved a profit. Channel Islands developed its position as an independent provider of trustee and corporate services, resulting in a significant increase in income and profit.

In recent years, the deficit of our defined benefit pension scheme has increased as a result, mainly, of members living longer and lower bond yields. During the year the decision was taken to keep the scheme open but lower the group's exposure by reducing future benefits and introducing employee contributions. The group paid a special contribution of £885,000 in 2005 and has paid a further special contribution of £1,615,000 in 2006.

Staff

The trustee and related services businesses performed strongly during the year and made a significant contribution to our income. Their success is dependent upon the professionalism and commitment of our people, whom I should like to thank for their hard work during the year.

Douglas McDougall

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Background

2005 was a very good year for global equity markets as investor confidence continued to increase. Global GDP growth remained relatively strong in spite of the rapid increase in the price of oil. Higher energy and commodity costs did not create the inflationary pressures that might have been expected and company profits continued to improve. Government bond yields in the UK fell to 4.2% while remaining stable at 4.4% in the US.

Global imbalances in the world economy remained with concerns over the US trade deficit resulting in weakness in the US dollar in the early part of the year. However, the dollar has surprised sceptics by strengthening against the other principal currencies, reflecting increased interest rate differentials and a relatively strong economy. UK house price inflation has slowed and retail sales have suffered. The Bank of England reduced interest rates for the first time in two years. Continental Europe was the most disappointing of the major economic areas and the structural changes needed to improve growth are disappointingly slow. Japanese GDP growth accelerated over the year, unemployment fell and bank lending increased. The increased confidence in Japan gave rise to an improvement in retail sales. China continued its impressive growth, which was a major factor in increased global commodity prices. The Chinese trade surplus increased over the year and the authorities allowed a modest increase against the US dollar.

Asset allocation and performance

	Law Debenture asset allocation		Total Return Performance	
Market	31 December 2004 %	**31 December 2005 %**	Law Debenture %	Relevant index* %
UK	73.6	**71.9**	22.2	22.0
Europe (ex UK)	10.8	**9.9**	35.5	24.1
North America	6.2	**6.3**	16.9	20.2
Japan	3.1	**5.2**	39.0	39.7
Pacific (ex Japan)	6.3	**6.7**	32.8	35.6

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

Overseas indices have been adjusted to reflect the impact of currency translation.

Source: BoNY.

We continue to invest mainly in the UK. The overseas portfolio is intended to provide exposure to areas of investment with attractive features which cannot be easily found in the UK. The Japanese weighting was increased as a result of improvements in economic activity and corporate profitability.

UK

The UK equity market made strong gains in 2005, with the FTSE All-Share Index appreciating 22.0%. A combination of improving corporate profitability, increased merger and acquisition activity and the improved global economy outweighed the impact of sluggish UK economic data. Smaller stocks were a focal point of corporate activity, with the FTSE Mid 250 Index finishing the year at an all time high with a gain of 26.8% for the year. Law Debenture benefited from takeover activity with P&O, Mersey Docks, Aggregate Industries and Peacock receiving bids. Mining stocks led the market higher with strength in commodity prices largely generated by China's increasing demand. Law Debenture's holdings in this area were reduced too early in the belief that valuations were looking too high.

continued

The major energy stocks rose significantly as the oil price hit record highs in the summer months, but subsequently fell back as energy prices reduced during the fourth quarter. Valuations of the major oil companies are undemanding and they remain a core part of the portfolio. Engineering and aerospace companies were good performers and Rolls Royce saw its share price appreciate markedly as it secured major contracts. The general insurers overcame concerns over the damage caused by hurricane Katrina as investors believe large increases in premiums will restore profitability. The housebuilders had another strong year as a result of better than expected trading and corporate activity. Retailers and banks underperformed the market in a more difficult operating environment.

Although share prices have risen substantially since March 2003 valuations in most areas appear reasonable.

North America

The FTSE North America Index increased 20.2% in sterling terms. However, excluding the currency effect the performance of the US equity market was relatively subdued, advancing 4.9% – well below other major stockmarkets. For UK investors, therefore, the strength of the dollar was the main reason for gains.

Domestically, US equities were held back by a combination of record highs in the oil price over the summer months and growing concerns as to how much further interest rates would rise.

The portfolio benefited from the continued strong performance of Apple as the company continued to release new products that captured the imagination of the youth market. The big disappointment in the US was our holding of First Marblehead, which came out with a succession of disappointing news, and we decided to sell it. Two new holdings, Richard Ellis and America Tower, have recently come through with better than expected results, illustrating the opportunities in the US market.

Europe

The European markets posted healthy gains in 2005, with the FTSE Europe ex UK Index returning 24.1% for sterling investors. Despite the frailty of domestic demand, global economic forces, corporate restructuring and merger activity ensured that investors had positive surprises from the equity market. We have preferred investments that have true growth potential, and have added to Inditex (clothing retailer, parent of Zara among other brands), and have taken a new holding in the freight forwarder Kuehne and Nagel. Our holding in ISS, the Danish cleaning company, was bid for by private equity at a large premium.

Japan

Japanese equities had an outstanding year which saw the FTSE Japan Index return 39.7%, the biggest advance since 1999 during the height of the dotcom boom. The growing evidence that the economy was emerging from a prolonged era of deflation and the convincing re-election of Prime Minister Koizumi gave rise to heavy buying from international investors. During the autumn we made some direct purchases of Japanese stocks. These included Toyota Motors, now the largest and the most successful automotive company in the world.

The rest of the Japanese exposure came from the Henderson OEIC. During the year the portfolio built up its exposure to service companies which are likely to benefit from further improvement in the domestic economy.

Pacific

Against a background of strengthening regional economies and the improving global outlook, the smaller Asia Pacific stock markets made significant progress, with the FTSE Pacific ex Japan Index gaining 35.6% in sterling terms. Korea was the best performing market in the region, up 76.4%, as a result of a strengthening economy and lower interest rates. The country's advanced IT infrastructure supported a significant increase in retail sales. As a result, the Korean market hit a succession of all-time highs in 2005. Elsewhere, the strength of mining stocks lifted Australian equities, which gained 31.7% over the year. We added to technology in Korea and Taiwan in the latter part of the year while reducing the position in telecommunications significantly because of a deteriorating outlook for earnings.

Outlook

After such a strong run in equities a setback might be expected. However, valuations are still not demanding and earnings and dividend growth are coming through well. The cash generation of many companies in the portfolio gives us confidence.

James Henderson
Henderson Global Investors Limited

Top 20 holdings by value

Rank	Company	2005 Value £000	2005 % of portfolio	2004 % of portfolio	2004 Rank
1	Henderson Pacific Capital Growth (Pacific)*	**25,657**	**6.74**	6.35	1
2	BP	**16,094**	**4.23**	4.33	2
3	Henderson Japan Capital Growth (Japan)*	**12,974**	**3.41**	3.08	4
4	GlaxoSmithKline	**10,716**	**2.81**	2.93	5
5	Royal Dutch Shell	**10,672**	**2.80**	2.92	6
6	HSBC	**10,268**	**2.70**	3.20	3
7	Royal Bank of Scotland	**7,191**	**1.89**	2.36	7
8	Vodafone	**6,889**	**1.81**	1.39	13
9	British American Tobacco	**6,370**	**1.67**	1.44	11
10	Alfred McAlpine	**6,340**	**1.67**	1.50	10
11	HBOS	**6,147**	**1.61**	1.73	9
12	Barclays	**6,105**	**1.60**	1.93	8
13	Redrow	**4,813**	**1.26**	1.12	17
14	Lloyds TSB	**4,392**	**1.15**	1.40	12
15	Rolls Royce	**4,275**	**1.12**	0.81	29
16	Diageo	**4,044**	**1.06**	1.17	15
17	BG	**4,018**	**1.06**	0.56	65
18	Tesco	**3,978**	**1.04**	1.27	14
19	BHP Billiton	**3,784**	**0.99**	0.80	30
20	Hilton	**3,562**	**0.94**	0.79	31
			41.56		

* Open ended investment companies.

The top 20 holdings by value at 31 December 2004 accounted for 42% of the investment portfolio.

	Valuation 31 December 2004 £000	Purchases £000	*Dealing* costs on acquisition £000	Sales proceeds £000	Appreciation/ (depreciation) £000	**Valuation 31 December 2005 £000**
United Kingdom	223,569	40,256	(219)	(31,111)	41,387	**273,882**
North America	18,942	16,331	(25)	(14,631)	3,249	**23,866**
Europe	32,797	9,263	(41)	(13,660)	9,350	**37,709**
Japan	9,367	5,742	(12)	–	4,536	**19,633**
Other Pacific	19,425	–	–	(106)	6,338	**25,657**
	304,100	71,592	(297)	(59,508)	64,860	**380,747**

Classification of investments

based on market values at 31 December 2005

	United Kingdom %	North America %	Europe %	Japan %	Other Pacific %
Oil & gas					
Oil & gas producers	8.09	0.33	0.68	–	–
Oil equipment & services	–	0.42	–	–	–
	8.09	0.75	0.68	–	–
Basic materials					
Chemicals	1.24	0.32	–	0.41	–
Forestry & paper	0.52	–	–	–	–
Industrial metals	–	–	–	–	–
Mining	2.55	–	–	–	–
	4.31	0.32	–	0.41	–
Industrials					
Construction & materials	1.32	–	1.19	–	–
Aerospace & defence	1.94	–	–	–	–
General industrials	1.51	–	–	–	–
Electronic & electrical equipment	0.58	0.29	–	–	–
Industrial engineering	1.40	–	–	–	–
Industrial transportation	1.07	0.18	0.83	–	–
Support services	3.25	–	0.50	–	–
	11.07	0.47	2.52	–	–
Consumer goods					
Automobiles & parts	0.38	–	–	0.56	–
Beverages	1.70	0.32	0.14	–	–
Food producers	1.95	–	0.61	–	–
Household goods	2.55	0.28	0.19	–	–
Tobacco	2.34	–	–	–	–
	8.92	0.60	0.94	0.56	–
Health care					
Health care equipment & services	0.66	0.49	0.84	–	–
Pharmaceuticals & biotechnology	3.40	0.18	0.56	0.21	–
	4.06	0.67	1.40	0.21	–
Consumer services					
Food & drug retailers	1.04	–	–	–	–
General retailers	2.37	0.42	0.55	0.25	–
Media	3.33	0.40	–	0.32	
Travel & leisure	4.01	0.30	0.46	–	–
	10.75	1.12	1.01	0.57	–
Telecommunications					
Fixed line telecommunications	1.66	0.20	0.40	–	–
Mobile telecommunications	1.96	0.22	–	–	–
	3.62	0.42	0.40	–	–
Utilities					
Electricity	0.97	0.24	–	–	–
Gas, water & multiutilities	1.86	–	–	–	–
	2.83	0.24	–	–	–
Financials					
Banks	10.42	0.22	2.03	–	–
Nonlife insurance	1.99	–	–	–	–
Life insurance/assurance	3.32	–	–	–	–
Real estate	2.09	0.28	0.58	–	–
General financial	0.46	0.19	0.35	–	–
Equity investment instruments	–	–	–	3.41	6.74
	18.28	0.69	2.96	3.41	6.74
Technology					
Software & computer services	–	0.44	–	–	–
Technology hardware & equipment	–	0.54	–	–	–
	–	0.98	–	–	–
Total 2005	**71.93**	**6.26**	**9.91**	**5.16**	**6.74**
Total 2004	73.51	6.24	10.79	3.08	6.38

The above table excludes bank balances and short term deposits.

Total 2005 £000	2005 %	*Total* 2004 £000	2004 %
34,661	9.10	28,255	9.28
1,611	0.42	811	0.27
36,272	9.52	29,066	9.55
7,512	1.97	3,667	1.20
1,980	0.52	1,863	0.61
–	–	658	0.22
9,694	2.55	5,985	1.96
19,186	5.04	12,173	3.99
9,549	2.51	9,506	3.13
7,401	1.94	4,111	1.35
5,753	1.51	1,520	0.50
3,327	0.87	6,611	2.19
5,314	1.40	5,849	1.94
7,954	2.08	7,168	2.36
14,270	3.75	12,857	4.22
53,568	14.06	47,622	15.69
3,553	0.94	1,183	0.39
8,207	2.16	8,377	2.75
9,733	2.56	9,396	3.09
11,488	3.02	6,883	2.26
8,915	2.34	6,676	2.19
41,896	11.02	32,515	10.68
7,599	1.99	7,029	2.31
16,531	4.35	11,915	3.91
24,130	6.34	18,944	6.22
3,978	1.04	4,444	1.47
13,702	3.59	7,341	2.41
15,408	4.05	12,510	4.10
18,143	4.77	13,109	4.31
51,231	13.45	37,404	12.29
8,570	2.26	5,532	1.82
8,283	2.18	4,230	1.39
16,853	4.44	9,762	3.21
4,642	1.21	2,991	0.98
7,103	1.86	6,730	2.21
11,745	3.07	9,721	3.19
48,295	12.67	43,532	14.33
7,545	1.99	3,237	1.07
12,620	3.32	14,837	4.88
11,206	2.95	9,237	3.04
3,830	1.00	5,212	1.71
38,631	10.15	28,710	9.44
122,127	32.08	104,765	34.47
1,684	0.44	586	0.20
2,055	0.54	1,542	0.51
3,739	0.98	2,128	0.71
380,747	100.00		
		304,100	100.00

as at 31 December 2005

The number of investments increased from 143 at 31 December 2004 to 148 at 31 December 2005.
Those shown in italics are new holdings in the six months since 30 June 2005.

	£000	%
Oil & gas		
Oil & gas producers		
BP	16,094	4.23
Royal Dutch Shell	10,672	2.80
BG	4,018	1.06
Total (Fra)	2,605	0.68
Exxon Mobil (USA)	1,272	0.33
	34,661	9.10
Oil equipment & services		
National Oilwell Vaeco (USA)	*950*	*0.25*
Williams (USA)	*661*	*0.17*
	1,611	0.42
Basic materials		
Chemicals		
BOC	2,388	0.63
ICI	2,315	0.61
Asahi Kasei (Japan)	*1,575*	*0.41*
Praxair (USA)	1,234	0.32
	7,512	1.97
Forestry & paper		
Smith (DS)	1,980	0.52
	1,980	0.52
Mining		
BHP Billiton	3,784	0.99
Anglo American	3,260	0.86
Rio Tinto	2,650	0.70
	9,694	2.55
Industrials		
Construction & materials		
Hanson	2,867	0.75
ACS Actividades Construccion (Spain)	2,804	0.74
CRH (Ireland)	1,708	0.45
Travis Perkins	*1,395*	*0.37*
Marshalls	775	0.20
	9,549	2.51
Aerospace & defence		
Rolls Royce	4,275	1.12
Smiths	3,126	0.82
	7,401	1.94
General industrials		
Tomkins	2,539	0.67
Morgan Crucible	2,151	0.56
Cookson	*1,063*	*0.28*
	5,753	1.51
Electronic and electrical equipment		
TT Electronics	2,205	0.58
General Electric (USA)	1,122	0.29
	3,327	0.87
Industrial engineering		
Senior	3,204	0.84
Renold	1,169	0.31
Weir Group	941	0.25
	5,314	1.40

	£000	%
Industrial transportation		
BAA	1,691	0.44
Kuehne & Nagel (Switz)	*1,626*	*0.43*
Wincanton	1,615	0.42
AP Moller-Maersk (Den)	1,532	0.40
PD Ports	817	0.21
Textron (USA)	*673*	*0.18*
	7,954	2.08
Support services		
Alfred McAlpine	6,340	1.67
Laing (John)	2,916	0.77
Johnson Service	2,225	0.58
Deutsche Post (Ger)	1,895	0.50
Interserve	*894*	*0.23*
	14,270	3.75
Consumer goods		
Automobiles & parts		
Toyota Motor (Japan)	*2,114*	*0.56*
GKN	1,439	0.38
	3,553	0.94
Beverages		
Diageo	4,044	1.06
Scottish & Newcastle	2,431	0.64
Pepsico (USA)	1,204	0.32
Pernod-Ricard (Fra)	*528*	*0.14*
	8,207	2.16
Food producers		
Unilever	2,880	0.76
Nestlé (Switz)	2,331	0.61
Cadbury Schweppes	*2,006*	*0.53*
Uniq	*1,564*	*0.41*
Premier Foods	952	0.25
	9,733	2.56
Household goods		
Redrow	4,813	1.26
Reckitt Benckiser	2,880	0.76
Alba	2,000	0.53
Nike (USA)	1,082	0.28
Essilor (Fra)	*713*	*0.19*
	11,488	3.02
Tobacco		
British American Tobacco	6,370	1.67
Gallaher	2,545	0.67
	8,915	2.34
Healthcare		
Healthcare equipment & services		
Fresenius (Ger)	3,203	0.84
Smith & Nephew	2,517	0.66
Medtronic (USA)	1,185	0.31
Abbott Laboratories (USA)	694	0.18
	7,599	1.99
Pharmaceuticals and biotechnology		
GlaxoSmithKline	10,716	2.81
Shire	2,231	0.59
Novartis (Switz)	2,118	0.56
Astellas Pharma (Japan)	*795*	*0.21*
Wyeth (USA)	*671*	*0.18*
	16,531	4.35

	£000	%
Consumer services		
Food & drug retailers		
Tesco	3,978	1.04
	3,978	1.04
General retailers		
GUS	3,106	0.82
Findel	*2,458*	*0.65*
Inditex (Spain)	2,105	0.55
Boots	1,452	0.38
DSG International	1,112	0.28
Lawson (Japan)	*952*	*0.25*
HMV	*901*	*0.24*
Federated Department Store (USA)	*850*	*0.22*
Shoppers Drug (Canada)	*766*	*0.20*
	13,702	3.59
Media		
Reuters	2,797	0.73
EMI	2,420	0.64
Reed Elsevier	2,398	0.63
Johnston Press	1,862	0.49
Pearson	1,718	0.45
BSkyB	1,489	0.39
Toppan Printing (Japan)	*1,223*	*0.32*
News Corporation (USA)	*860*	*0.23*
Donnelley (USA)	641	0.17
	15,408	4.05
Travel & leisure		
Hilton	3,562	0.94
Greene King	3,547	0.93
Go-Ahead	2,445	0.64
Carnival	1,775	0.47
Ryanair (Ireland)	*1,768*	*0.46*
Intercontinental Hotels	1,207	0.32
Carnival (USA)	1,129	0.30
Avis Europe	979	0.26
Compass	882	0.23
Whitbread	*813*	*0.21*
Mytravel	34	0.01
Mytravel Warrants	2	–
	18,143	4.77
Telecommunications		
Fixed line telecommunications		
BT	2,896	0.76
Portugal Telecom (Portugal)	1,483	0.40
Colt Telecom 7.625% 15 Dec 2009	*1,384*	*0.36*
Cable & Wireless	1,192	0.31
Colt Telecom 7.625% 31 Jul 2008	867	0.23
Sprint Nextel (USA)	748	0.20
	8,570	*2.26*
Mobile telecommunications		
Vodafone	6,889	1.81
American Tower (USA)	837	0.22
Inmarsat	557	0.15
	8,283	2.18
Utilities		
Electricity		
Scottish & Southern Energy	2,028	0.53
Scottish Power	1,685	0.44
Exelon (USA)	929	0.24
	4,642	1.21

	£000	%
Gas, water & multiutilities		
United Utilities	2,766	0.73
Severn Trent	2,491	0.65
National Grid	1,846	0.48
	7,103	1.86
Financials		
Banks		
HSBC	10,268	2.70
Royal Bank of Scotland	7,191	1.89
HBOS	6,147	1.61
Barclays	6,105	1.60
Lloyds TSB	4,392	1.15
Alliance & Leicester	3,265	0.86
Standard Chartered	2,329	0.61
BNP Paribas (Fra)	2,253	0.59
Fortis (Neth)	2,032	0.53
ABN Amro (Neth)	1,790	0.47
Deutsche Postbank (Ger)	1,693	0.44
Citigroup (USA)	830	0.22
	48,295	12.67
Nonlife insurance		
Hiscox	3,065	0.81
Jardine Lloyd Thompson	2,734	0.72
Wellington Underwriting	1,746	0.46
	7,545	1.99
Life insurance/assurance		
Aviva	2,888	0.76
Old Mutual	2,636	0.69
Friends Provident	2,464	0.65
Prudential	2,436	0.64
Legal & General	2,196	0.58
	12,620	3.32
Real estate		
Hammerson	3,066	0.81
Land Securities	2,487	0.65
Slough Estates	2,382	0.63
Unibail (Fra)	2,201	0.58
CB Richard Ellis (USA)	1,070	0.28
	11,206	2.95
General financial		
Provident Financial	1,643	0.43
Deutsche Börse (Ger)	1,278	0.34
American Express (USA)	*719*	*0.19*
	3,640	0.96
Equity investment instruments		
Henderson Pacific Capital Growth (Pacific)	25,657	6.74
Henderson Japan Capital Growth (Japan)	12,974	3.41
	38,631	*10.15*
Technology		
Software and computer services		
Microsoft (USA)	1,066	0.28
Micros Systems (USA)	*618*	*0.16*
	1,684	0.44
Technology hardware & equipment		
EMC (USA)	1,239	0.33
Apple Computer (USA)	816	0.21
	2,055	0.54

Results

Trustee and related services revenue rose by 16.9% benefiting from growth in fees in all areas. Profit before tax was £6,270,000 compared with £5,100,000 for the previous year, an increase of 22.9%. Our New York operations are gaining recognition in their local market and overall our overseas offices have generated a profit for the year. The much improved performance of trustee and related services has contributed a return of 4.32p per ordinary share to shareholders, an increase of 23.1%.

Commercial trusts

Commercial trusts remains the largest contributor to income in our trustee and related services business. Capital markets transactions continue to provide the bulk of our business. Although the market for commercial trust services was extremely competitive, 2005 was a busy year for Law Debenture.

We have been selected to act as trustee by a number of new borrowers to the capital markets such as Birmingham City Council, Royal London Insurance, Scarborough Building Society and Scottish Widows. We have also been involved in bond issues by existing clients such as Brixton, Lloyds TSB, HBOS, Northumbrian Water, Royal Bank of Scotland, the Swedish utility Vattenfall and Vodafone. We were very pleased to have been appointed again by Euroclear Bank on a Tier 1 capital issue.

Issuance under medium term note programmes continues to be high and we have been appointed to a number of new programmes including Aviva, a subsidiary of HSBC and Marks & Spencer. We have also been appointed transaction administrator to a medium term note programme by the AAA rated Islamic Development Bank which provides for Sharia-compliant sukuk transactions, issued in the form of trust certificates.

In the securitisation market, Law Debenture has been involved on a wide range of deals including a commercial mortgage backed bond issue where we also provide corporate services and a Portuguese law securitisation for a leading Portuguese bank. We have also undertaken a number of security trustee roles and been involved in voting trust arrangements.

Inevitably, we are also involved in a number of defaults, or potential defaults, and restructurings both in the UK and overseas. There has been considerable activity, including court cases, throughout the year in connection with bonds issued by a finance subsidiary of the Polish industrial conglomerate, Elektrim S.A., for which Law Debenture is trustee. It is anticipated that there will be significant further activity in 2006 on this and certain other matters. In all cases working closely with our legal advisers, we endeavour to protect the interests of the bondholders. Although the trustee is legally entitled to recover its costs, we are not always able to do so.

Treasury management

Treasury management provides trust cash management and administration services in relation to various commercial trusts, employee benefit schemes and retention plans, project financings and escrow arrangements. Treasury staff are investment professionals, specialising in the management of the cash movements or the administrative functions relating to a particular trust, escrow, administration or agency role. This complements the more traditional trustee function where cash is simply held in a bank account and then paid out once the required conditions have been met. The department also tracks external transaction cash flows ensuring that the trustees' obligations are met.

Treasury is well positioned to increase business further, building on Law Debenture's unique position of independence, experience, flexibility and innovation to create customised commercial trust and escrow solutions.

Pensions
Demand for our services as an independent pension trustee has continued to grow and we gained some significant appointments during 2005. We were particularly pleased to be appointed as a director of Stanhope Pension Trust, the corporate trustee of the Marconi pension scheme, and to be instrumental in securing an innovative agreement which resulted in a strengthening of the security of the scheme through the establishment of an escrow account of £490 million.

The Pension Regulator commenced office in April and Law Debenture was among the first to be admitted to the Regulator's register of approved pension scheme trustees. We have been appointed to one scheme by the Regulator, but it has been disappointing that so far we have not been more successful with our tenders.

We have maintained our profile as a leading firm in several ways. We again held a successful public debate on a topical pensions issue, and we have produced two booklets in our Pensions Essentials series aiming to provide helpful support material for pension trustees. We are releasing a third booklet in March 2006 and all three will be found on the Law Debenture web site.

Corporate services
Law Debenture Corporate Services Limited has two income streams. The first is our long established and highly regarded service of process business. This continues to flourish, and we are able to accept appointments through our offices in London, New York, Jersey and Hong Kong virtually 24 hours a day.

The second income stream is the provision of corporate services (corporate directors and company secretary to special purpose vehicles – SPVs), which is now well established in the market. In 2005, we won roles in securitisations by, among others, Greene King Plc, Citibank, CSFB and Northern Rock Plc. We also acted in managing SPVs for projects in emerging markets, property transactions and specialised restructured debt arrangements. The corporate services department operates independently of the commercial trust business and provides services to transactions whether or not Law Debenture has a trustee role.

Overseas
New York
Law Debenture Trust Company of New York achieved significant growth and is now generating profits. Income benefited from special fees from our role as successor trustee in respect of corporate insolvencies, including Northwestern Corporation, Kaiser Aluminum and Avado Restaurants. We also gained successor appointments on more than half of the major insolvencies in the US during 2005: Northwest Airlines, Delphi Corporation and Collins & Aikman.

During the year we were appointed trustee for US issuers: Allstate Life Insurance, NRG Energy Inc., The Nasdaq Stock Market Inc., Mirant North America and international issuers in Continental Europe and South America. Escrow account balances grew strongly and fees relating to these were a significant contributor to earnings.

After a disappointing year in 2004, Law Debenture Corporate Services Inc had a much improved year and we are optimistic for continued growth in the future. Efficient and responsive service is the key to success to this business. Several new marketing initiatives were undertaken, some in conjunction with the London office, which contributed strongly to overall success.

continued

Hong Kong

The Hong Kong office saw further improvement in 2005, thanks largely to a high level of transactions giving rise to a significant growth in escrow work. Most of these transactions involved counterparties in mainland China. We expect this trend to continue in 2006.

Whilst our role in servicing existing clients in Hong Kong remains important to the company, new opportunities increasingly come from the People's Republic of China. During 2005, the voting trust arrangement for Tsingtao Brewery Company Limited and Anheuser-Busch Companies, Inc. was executed. We hope that this kind of mechanism will prove useful to other foreign investors looking to make substantial investment into Chinese companies. Law Debenture's established reputation with foreign firms should put us in good stead to take advantage of such opportunities, or in any other situation where the foreign investor wishes to have the comfort provided for by a well recognised independent third party.

Channel Islands

Law Debenture Channel Islands expanded its portfolio of clients requiring independent trustee and corporate services. Notable appointments include a security trusteeship for South African black economic empowerment share issues by a listed company.

Cayman Islands

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

Caroline Banszky

The directors present their report and the audited financial statements of the group for the year ended 31 December 2005. 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 2004, the latest year for which financial statements have been submitted. Such approval for the year ended 2004 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 section 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.

In August 2002, all of the Corporation's ordinary shares of 25p were split into five ordinary shares of 5p. Wherever share price data is shown which relates to a period before August 2002, the price has been restated to reflect the share split.

Revenue, dividends and reserves

The revenue return attributable to shareholders for the year ended 31 December 2005 was £11,773,000. The directors recommend a final dividend of 5.95p per share, which together with the interim dividend of 3.10p paid in September 2005, will produce a total of 9.05p (2004: 7.55p). The final dividend will be paid on 19 April 2006 to holders on the register on the record date of 17 March 2006. After deduction of the interim and proposed final dividends of £10,602,000 (2004: £8,852,000), consolidated revenue reserves increased by £1,171,000 (2004: increase of £1,240,000).

Directors

All the directors on page 5 held office throughout the year. In accordance with the articles of association, Mr Cates is required to retire and offer himself for election, it being three years since his last election. The board supports his nomination. As senior non-executive director he has contributed much to the work of the board and his extensive knowledge of the commercial trust sector is particularly valued. Mr Williams became a non-executive director on 1 January 2005. Since he has been a director for more than 9 years, under corporate governance best practice he is obliged to stand for annual re-election. The board supports his re-election. Mr Williams has previously provided excellent service as an executive director, and has continued to provide valuable advice to the board as a non-executive on a range of matters connected both with the investment trust and the trustee business.

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	2005	2004
C.J. Banszky	**25,999**	19,770
A.C. Cates	**35,282**	35,195
Professor J.A. Kay	**5,000**	5,000
D.C.P. McDougall	**410,000**	410,000
R.J. Williams	**87,280**	85,378

No director has a beneficial interest in the shares of any subsidiary company. There has been no change in directors' interests since 31 December 2005, save for Mrs Banszky, who has acquired a further 732 shares.

continued

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"). One company in the group, The Law Debenture Trust Corporation p.l.c., is regulated in the conduct of a limited range of authorised business activity. The directors receive periodic reports from the compliance officer about its conduct.

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 reserves the right to vote against management where appropriate.

The board determines the Corporation's investment strategy but does not issue express instructions to the investment manager on transactions in particular shares. Where Law Debenture believes that incumbent management is failing in its duties, Law Debenture (or on its behalf, the Corporation's investment manager) may attempt to enter in to 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 voting against resolutions proposed by the management.

Henderson Global Investors Limited, 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 for cancellation. It intends to seek shareholder approval to renew its powers to repurchase shares for cancellation up to 14.99% of the Corporation's issued share capital, if circumstances are appropriate.

Substantial shareholdings

As at 23 February 2006, 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	3.39%

The board is not aware of any other substantial holdings.

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, and the Corporation also provides this service to shareholders in nominee companies where the nominee has made appropriate arrangements. 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 30. The Corporation has since 1992 operated SAYE schemes in which all UK 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 2005 were:

Date of grant	Number of option holders	Shares under option	Exercise price
24 May 2001	3	4,465	241.04p
4 July 2002	3	4,700	225.10p
2 July 2003	38	241,281	172.40p
17 June 2004	17	38,177	203.82p
10 June 2005	14	20,581	240.73p

From 1993 to 2004, the Corporation operated Executive Share Option Schemes, which enable executives to be granted options to acquire shares in the Corporation. 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. Following a board decision to discontinue the scheme and replace it with a Deferred Share Bonus Plan (see page 32), no options were granted during 2005 and total options outstanding at 31 December 2005 were as follows:

Date of grant	Number of option holders	Shares under option	Exercise price
4 December 1998	10	247,500	212.1p
2 August 2002	1	31,205	211.5p
28 March 2003	20	247,994	174.2p
2 March 2004	22	163,298	228.2p

Investment management

Henderson Global Investors Limited is solely responsible for the management of the investment portfolio. Henderson is fully aware of the Corporation's investment strategy and provides a cost competitive service. Consequently the directors believe that the continuing appointment of Hendersons is in the best interests of shareholders. 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 £814,000 (2004: £708,000) and are based on 0.25% per annum of the average portfolio value, excluding cash. The underlying management fee of 1% on the Corporation's holdings in the Henderson Japanese and Pacific OEICs has been rebated. The Corporation holds no shares in members of the HHG Group, the parent company of Henderson Global Investors Limited; it has been notified that funds managed by members of the HHG Group held 539,466 shares in the Corporation at 31 December 2005.

Charitable donations

During the year the Corporation made charitable donations of £2,257 (2004: £3,017).

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 30 days. Special arrangements exist for suppliers of certain legal services, where the group charges these costs to its clients.

continued

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 profit or loss of the group for the financial year.

In preparing the accounts on pages 38 to 61, 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.

Under a regulation adopted by the European Parliament the Corporation is required to prepare its financial statements under International Financial Reporting Standards ("IFRS"). The 2005 interim report and the financial statements in this annual report are prepared under IFRS.

Auditors

During the year, the board received notice that PKF had converted its business into an LLP called PKF (UK) LLP, owned by the existing equity partners of PKF. The board resolved that the Corporation should treat the appointment of PKF as the Corporation's auditor, as approved by the shareholders on 12 April 2005, as extending to PKF (UK) LLP in accordance with the provision of section 26(5) of the Companies Act 1989.

A resolution to re-appoint PKF (UK) LLP as auditors to the Corporation will be proposed at the annual general meeting.

By order of the board

Law Debenture Corporate Services Limited
Secretary
28 February 2006

The directors are required to report on how the Corporation has applied the main and supporting principles in the Combined Code on Corporate Governance (the "Combined Code"), and to confirm that it has complied with the Code's provisions or, where this has not been the case, to provide an explanation. As it is a smaller listed company (i.e. one that was below the FTSE 350 during the entire period of the review), some of the provisions of the Combined Code do not apply to it, and other provisions may be deemed disproportionate or less relevant. Further, investment companies such as Law Debenture may have board structures which might affect the relevance of particular provisions of the Combined Code. Where Law Debenture has departed from any provisions of the Combined Code, this will be explained below.

The board – role, *modus operandi* and appraisal
The board includes a majority of non-executive directors. The names of the directors who served through the year, along with biographies, are on page 5 of the annual report.

The board is responsible for the overall strategy and management of the group, setting investment policy and strategy and ensuring that the Corporation is operating in compliance with statutory and legal obligations. There is a formal schedule of matters specifically reserved for board decision, and this document is published on the Corporation's website (www.lawdeb.com/investmenttrust/investor information). Matters connected with: strategy and management; structure and capital; financial reporting and control; investment trust portfolio; contracts; shareholder communication; board membership and other appointments; remuneration; and corporate governance are reserved for the board. There is a separate schedule setting out the division of responsibility between the chairman and managing director.

The chairman takes personal responsibility for leadership of the board and ensures that directors receive accurate, timely and clear information. He reviews the provision of information with the company secretary at least annually.

The board operates as a collective decision making forum. Individual directors are required to scrutinise reports produced by the executive, and are encouraged to debate issues in an open and constructive manner. If one or more directors cannot support a consensus decision, then a vote would be taken and the views of a dissenting director recorded in the minutes. This is rare, however, and it was not necessary to take a vote on any board decision during 2005.

Procedures are in place to enable independent professional advice to be taken by individual directors at the Corporation's expense, and appropriate insurance cover is in place in respect of legal action against the directors.

The board meets regularly throughout the year. The attendance records of the directors (both at meetings of the board and, where relevant, meetings of board committees) are set out in the table below. There are also two strategy days each year: one attended only by the directors; the other, in respect of the trustee business, attended by business heads with the managing director and two other directors in attendance.

	Board	Remuneration	Audit	Nominations
Number of meetings in the year	9	6	3	1
Meetings attended by:				
C.J. Banszky	9	–	–	–
A.C. Cates	8	6	3	1
K.W.B. Inglis*	3	2	1	1
J.A. Kay	8	6	3	1
D.C.P. McDougall	9	6	3	1
R.J. Williams	9	–	–	–

* Retired 12 April 2005, attended all possible meetings until that point.

The board keeps under review the performance of the executive director, and the chairman formally appraises all the directors each year. The non-executive directors meet once each year (without the presence of the chairman) to review the chairman's performance, the results of the discussion being discussed with the chairman by the senior independent director.

continued

Mr Cates is the senior independent director. He is available to shareholders who have concerns that cannot be addressed through the chairman, managing director or chief financial officer.

The board – independence

As a smaller company, Law Debenture is required by the Combined Code to have at least two independent non-executive directors. The board has concluded that as at the date of this report, three of its four non-executive directors are independent. In judging independence, the board takes into account whether or not a director is independent of management and any business or other relationship that could affect or interfere with the exercise of objective judgement by the director, or his/her ability to act in the best interests of the Corporation and its subsidiaries.

The chairman, Mr McDougall, was independent at appointment and continues to be independent.

The board is satisfied that Mr McDougall's other commitments do not interfere with the discharge of his responsibilities to Law Debenture, and is satisfied that he makes sufficient time available to discharge his duties as chairman of Law Debenture.

Mr Cates was until 30 April 2002 a partner of Clifford Chance LLP, a firm that has provided advice to certain of the trustee subsidiaries from time to time. The board has concluded that this does not affect the assessment of Mr Cates as independent for two reasons. Firstly, the Corporation's trustee businesses obtain legal advice from many leading law firms during the course of a year. Secondly, in many instances, external factors (rather than Law Debenture's preference) dictate the choice of legal adviser, or conflicts of interest dictate that one firm must be chosen ahead of another.

Professor Kay was independent at appointment (in September 2004) and remains so.

On 1 January 2005, Mr Williams became a non-executive director, having previously spent 11 years as an executive director. He is not considered by the board to be independent because of his recent period of 11 years as an executive.

The board – re-election and renewal

The nominations committee – described in more detail elsewhere in this report – ensures that the board has in place arrangements for orderly and transparent appointments to the board. There are job descriptions in place for non-executive directors' roles, and the board has written terms and conditions of appointment for non-executive directors, which are available for inspection at the AGM. Particular care is taken to ensure that non-executive directors have sufficient time to commit to the duties expected of them. No new non-executive director is appointed without first being interviewed by each existing non-executive director.

All new directors undergo an induction process, involving presentations by the managing director and each business head and meetings with the investment manager.

All directors are submitted for re-election at regular intervals, subject to continued satisfactory performance, which is assessed as described above. All directors are subject to election by shareholders at the first AGM after their appointment, and at least every three years thereafter. There is no maximum number of terms that a director may serve.

Any non-executive director having served on the board for more than 9 years will be required to stand for re-election annually.

Directors' remuneration

Details of the directors' remuneration appear in the remuneration report on page 34.

Board committees

The board has established three committees, to which it has delegated certain responsibilities. These are the remuneration committee, the audit committee and the nominations committee. Each committee has terms of reference, which are published on the Corporation's website **(www.lawdeb.com/investmenttrust/investor information)**.

All members of board committees are independent non-executive directors. The Smith guidance, which forms part of the Combined Code, says that the chairman should not be a member of the audit committee. The Corporation's board has concluded, however, that given the range and complexity of issues considered by the committee, it is appropriate to have three members including the chairman.

A summary of each committee is set out below. The number of meetings held during the year, and the attendance record of committee members is set out in the table on page 25.

Nominations committee

Role

To keep under review the structure, size and composition of the board and make recommendations about adjustments that are deemed necessary, and to ensure effective succession planning in accordance with legal and corporate governance needs.

Key duties

- Identification and nomination for board approval of suitable candidates to fill vacancies;
- Succession planning (in particular of the *chairman and managing director*);
- Making recommendations about the re-appointment of non-executive directors under the retirement by rotation provisions; and
- Ensuring that the board and its committees are constituted to comply with the Combined Code.

Members

Mr D.C.P. McDougall *(chairman)*
Mr A.C. Cates
Professor J.A. Kay

Audit committee

Role

To assist the board in the management of the group's finances and financial reporting structure.

Key duties

- Monitoring the independence and objectivity of the auditors, their performance and remuneration;
- Reviewing the annual and interim accounts before submission to the board, including particular focus on changes in accounting policy etc; and
- Reviewing the effectiveness of systems of internal control and risk management (including monitoring the internal audit function).

Members

Professor J.A. Kay (chairman)
Mr D.C.P. McDougall
Mr A.C. Cates

The board is satisfied that all members have the necessary recent and relevant financial experience to serve.

Remuneration committee

Role

To develop the Corporation's remuneration policy and oversee its implementation, monitoring the effectiveness of the policy as it relates to the group's executives.

Key duties

- Reviewing and agreeing the remuneration and benefits of the executive director and senior executives;
- Development of total remuneration packages based in part on performance and subject to suitable performance measurements as set by the committee; and
- To make recommendations to the board for any changes to long term incentive arrangements.

Members

Mr D.C.P. McDougall (chairman)
Mr A.C. Cates
Professor J.A. Kay

continued

Accountability and audit

The statement of directors' responsibilities in relation to the financial statements appears on page 24 of the annual report and accounts. The independent auditor's report appears on page 36. The directors confirm that the Corporation and the group is a going concern as evidenced by the financial statements, which demonstrate a healthy position, taking into account all known and future anticipated liabilities, and the group's ability to meet those liabilities.

The financial statements present a balanced and clear assessment of the group's financial position and prospects. The financial statements are reviewed by the audit committee, then approved by the board, and signed by the chairman and managing director.

Non-audit services provided by the auditor are reviewed by the audit committee to ensure that independence is maintained. Non-audit fees are shown at Note 4 on page 47. The board's policy is that non-audit work (which normally consists of taxation and other technical advice), will be carried out by the Corporation's auditors unless there is a conflict of interest or someone else is considered to have more relevant experience.

Internal controls

The board monitors the effectiveness of internal controls in a number of ways, both directly through main board general reviews and also by the more specific work carried out by the audit committee. The various mechanisms include:

- Board review of the group's matrix of key risks and controls;
- An internal audit function, which involves not only each business department (including overseas offices) being subject to audit on a regular basis, but also regular reviews of other business wide processes;
- Testing by the compliance officer of the Financial Services Authority ('FSA') regulated business systems and controls; and
- 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.

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. Following a recent review of the Turnbull guidance, the Financial Reporting Council published updated guidance which applies to financial periods beginning on or after 1 January 2006. The board will be reviewing this guidance during the year and reporting in accordance with it commencing next year.

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 board has continued to require that the group maintains proper accounting records, so that it can rely on the financial information it receives 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 litigation, insurance, pensions, taxation, accounting and cash management as well as legal, compliance and company secretarial issues;
- The review of internal audit reports by the appropriate operating company board and the Audit Committee;

- 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, including annual meetings with the senior management and compliance staff of Henderson Global Investors Limited;
- 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; and
- Frequent and detailed reports received about the trustee businesses, including reports (and attendance at board meetings from time to time) from managing directors of overseas subsidiaries.

The systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material mis-statement 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 2005 and will be reviewed by the board on a regular basis.

Arrangements are in place by which staff of the group may, in confidence, raise concerns under the Public Interest Disclosure Act 1998 about possible improprieties in matters of financial reporting or other matters. If necessary, any member of staff with an honest and reasonable suspicion about possible impropriety may raise the matter directly with the chairman of the audit committee. Arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action.

Relations with shareholders and institutional shareholder responsibilities

The Corporation's compliance with these aspects of the Combined Code is described separately within the directors' report.

Annual general meeting

Details of the annual general meeting for 2006 are set out at page 73.

The board recognises the value of the AGM as an opportunity to communicate with investors and encourage their participation. Separate resolutions are put to the AGM on each substantially separate issue. Except where a poll has been called, the level of proxies lodged for each resolution, and the balance for and against the resolution and the number of abstentions is disclosed to the meeting. All directors attend the AGM. The notice of the AGM and related papers are sent to shareholders at least 20 working days before the meeting. Where requested by nominee holders, annual reports and related documentation are circulated to beneficial owners and the Corporation is happy for beneficial owners to attend the AGM and (where appropriate arrangements have been made with the nominee) to vote their shares in person.

Summary statement of compliance

The board has concluded that, as demonstrated by the disclosures made in the foregoing, the Corporation has complied throughout 2005 with the requirements of the Combined Code on Corporate Governance or, where it has not complied, an explanation has been provided. Compliance is reported in respect of the entire Code, notwithstanding the fact that some of the provisions do not apply to Law Debenture as a smaller company.

Dear Shareholder

In accordance with the Directors' Remuneration Report Regulations 2002 and the Companies (Summary Financial Statement) Amendment Regulations 2002, on behalf of the board I submit the remuneration report for The Law Debenture Corporation p.l.c. for 2005. The report contains 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.

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 the executive director's remuneration to a remuneration committee. All of the members of the committee (listed at page 27) are independent, non-executive directors. Each of these served throughout the year to 31 December 2005. In addition, Kenneth Inglis, a former non-executive director, was a member of the committee until his retirement on 12 April 2005.

The committee met six times during the year. The managing director attended five of the meetings at the invitation of the chairman (although she was not present when details of her own remuneration were discussed). The managing director, the chief financial officer 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 salary benchmarking exercises. PKF (UK) LLP and Linklaters were appointed to provide advice on technical and legal aspects of the new long term bonus arrangement for senior staff (see below).

To the extent required by statute, disclosures in this remuneration report have been audited – the independent auditors' report appears on page 36.

The Corporation's remuneration policy

The remuneration committee and the board recognise that the Corporation and its subsidiaries work in competitive markets. The aim is to ensure that remuneration packages offered to the executive director 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; and
- There should be a clear link between total remuneration and performance.

The major components of Law Debenture's remuneration packages for the executive director and senior executives comprise: basic salary; general bonus scheme, which may be invested in a Share Incentive Plan, calculated by reference to the success of the trustee and related businesses; discretionary bonus based upon trustee and related business performance and the attainment of personal targets; a long term bonus scheme for certain senior executives, designed to enhance retention of people key to the strategic growth of the trustee business; pensions provision in a contributory, funded, 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. Non-executive directors receive fees as described at paragraphs 9 and 11, but do not receive any other benefits.

During the year, the board decided to discontinue awards under the executive share option scheme. The scheme was therefore replaced by a new long term bonus arrangement – see paragraph 5 below – payable to eligible executives.

The sole executive director during the period of this report was Mrs Banszky (managing director).

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

1. Basic salary

Basic salary is 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 salary of the executive director, which is described at paragraph 11 below, is reviewed annually by the remuneration committee.

The managing director also received non-pensionable cash payments in the form of a car allowance, pension allowance as detailed in paragraph 7 and a payment in lieu of private health cover (she is not a member of the group's scheme). This is included within salary/fees at paragraph 11. Non-cash benefits include life insurance cover, the cost of this being included within the pension contributions made on her behalf by the group.

2. General bonus scheme

This is payable to all eligible staff but not to the managing director.

A cash payment will be made in March 2006 in respect of performance of the trustee and related businesses in 2005. The amount of the payment is not guaranteed from year to year and is 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 (normally expected to be between 5 and 15%), and all qualifying employees receive a bonus calculated at the same percentage. In 2006, the general bonus scheme payment will be 12% 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 length of service and qualification conditions do apply. Entitlement to the payment will be withdrawn if the participant is not employed as at 24 March 2006. Participants are entitled to place all or part of their general bonus scheme payment into an Inland Revenue approved Share Incentive Plan.

3. Executive share options

A summary of executive share options granted in previous years to the executive director is set out at paragraph 13. As stated above, no awards were made under the scheme in 2005 as it has been discontinued.

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

- *Options granted in 2002*

  These are 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 compound 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, applying the compound rate to the extended period. If the condition is still not met following re-testing, the options lapse.

- *Options granted in 2003*

  These are exercisable from 28 March 2008, but only if the performance conditions are met (these are as above under the heading 'Options granted in 2002' except that the initial testing period is to 31 December 2007).

- *Options granted in 2004*

  These are exercisable from 2 March 2007 only if the performance conditions are met (these are as above under the heading 'Options granted in 2002', except that the initial testing period is to 31 December 2006, the performance criteria must be met over three years, and there will be no re-testing).

The board received representations from shareholders during 2004, raising concerns that options issued in 2002 and 2003 would be subject to re-testing. As a result, options issued in 2004 are not subject to re-testing and will lapse if performance conditions have not been met at 31 December 2006.

continued

4. Senior executive discretionary bonus scheme
This is payable to a number of senior executives, including the managing director.

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. There is no contractual entitlement that says an incentive payment must be paid in any given year. Entitlement is normally lost if, on the date that incentive payments are paid, a participant is no longer employed by the group, or either the participant or the group has served notice to terminate employment. Incentive payments are not taken into account in calculating pension contributions. The discretionary bonus payable in 2006 to Mrs Banszky in respect of 2005 will be £120,000 (2004: £92,000). Up to the allowable limit, her bonus in respect of 2005 and payable in 2006, will be eligible to be placed in the Corporation's Share Incentive Plan.

Starting in 2006 (in respect of payments for performance delivered in 2005), the remuneration committee has amended the bonus arrangements. Eligible executives can receive a total bonus, which except in exceptional circumstances is unlikely to exceed 75% of salary. The total bonus includes the general bonus scheme, the senior executive discretionary bonus scheme and the award to be made under the Deferred Share Bonus Plan, see below. It is expected that the award made under the Deferred Share Bonus Plan will be at least one-third of the total bonus receivable by the participant.

5. Deferred Share Bonus Plan
In April 2005, the board approved the establishment of a new Deferred Share Bonus Plan, designed to incentivise and retain staff deemed key to the future strategic growth of the trustee and related businesses. Shareholder approval was not required for the new Plan because it does not involve the issue of new shares, and there are no qualifying performance conditions. At its discretion, the remuneration committee may make an award of shares each year under the Plan to key executives. No executive has a contractual entitlement to an award, and the committee is not obliged to make an award to any individual in any year. Awards are made on the basis of an individual's contribution to the profits of the trustee business in the previous year. Shares are purchased in the open market up to the amount of the award, and held on trust by a Law Debenture subsidiary. The shares are released to the executive on the third anniversary of grant of the award and are taxable at the executive's marginal rate of income tax on receipt. Entitlement to the award is lost if the executive gives notice to resign, or is put on notice of termination, before the award release date. Shares held by the trustee pending release to relevant executives carry no rights to dividends, voting entitlement or otherwise. The committee made awards of deferred bonus shares to the executive director (details of which are at paragraph 15) and 12 key members of the executive on 13 May 2005. Subject to eligibility, the shares will be released to award holders on 13 May 2008. All awards were made for shares valued at the equivalent of less than 10% of any participant's salary.

The remuneration committee has agreed an award of shares to the value of £60,000 under the plan to Mrs Banszky in respect of 2005, which will be purchased in March 2006 and will be released in March 2009.

Non-executive directors are not entitled to be participants.

From 2006 (in respect of performance in 2005), the remuneration committee will widen the number of participants in the Deferred Bonus Share Plan to include some executives who previously received all of their discretionary bonus in cash. Further details are included in paragraph 4.

6. Save as you earn ("SAYE") sharesave plan 2002 ("the scheme")
Subject to eligibility conditions concerning length of service, the executive director (in common with all of the members of staff) is entitled to participate in the Corporation's SAYE Scheme. Details of her participation in the Scheme appear at paragraph 14.

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 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 be up to a maximum aggregate 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.

At the end of the five year saving period, participants receive a tax free bonus as stipulated by the Inland Revenue. 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.

Mrs Banszky did not participate in the 2005 invitation, being fully invested (contributing £250 per month) from the 2003 invitation.

7. Pensions provision

Mrs Banszky is a member of the group's funded contributory, Inland Revenue approved, final salary occupational scheme. Details of her membership of the scheme are contained in the table at paragraph 12. The rules relating to the earnings cap (currently £105,600 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 managing director is paid a cash non-pensionable amount equal to 20% of the difference between (i) her base salary and (ii) the Inland Revenue permitted maximum for the time being. This amount is paid monthly in arrears accruing from day to day after the deduction of income tax and national insurance.

8. Service contracts

Details of the executive director's service contract are as follows:

	Date of Contract	Notice Period
Mrs C.J. Banszky	*9 November 2001*	*6 months*

Her 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 for cause the executive director's employment is summarily terminated.

In the event that the managing director is given notice of termination of employment within twelve months of any change in control of the company, she must be given 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.

9. Remuneration of non-executive directors

The non-executive directors were paid fees for their services in 2005, as set out in paragraph 11. They may also reclaim travelling expenses.

The fees are reviewed by the board, on advice from the executive director, who from time to time undertakes comparative studies, using an independent remuneration consultant, to ensure that the Corporation's fee levels are consistent with the marketplace. The fees were reviewed in December 2003. Following the review, fees were amended with effect from 1 January 2004, and were paid as a flat rate director's fee (£20,000, or £25,000 for the senior non-executive director) with variable, additional fees being paid for each sub-committee or board on which a director serves as chairman or a member. All directors are expected to attend all meetings of the board and of any sub-committee of which they are a member, barring unforeseen circumstances. The attendance record of the non-executive directors at meetings of the Corporation's board and committees is set out at page 25 as part of the corporate governance report.

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.

continued

Law Debenture share price total return, assuming the investment of £1,000 on 31 December 2000 and *reinvestment of all dividends (excluding dealing* expenses).

FTSE All-Share Index total return assuming notional investment of £1,000 into the index on 31 December 2000 and the reinvestment of all income (excluding dealing expenses).

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.

11. Directors' emoluments 2005 (audited)

	Total salary/fees £	Total bonus £	Benefits other than in cash £	**Total receivable for 2005 £**	Total receivable for 2004 £
Mrs C.J. Banszky	278,089	120,000	1,040	**399,129**	359,624
Mr A.C. Cates	45,000	–	–	**45,000**	48,750
Mr K.W.B Inglis*	9,827	–	–	**9,827**	35,000
Mr D.C.P. McDougall	55,000	–	–	**55,000**	55,000
Mr R.J. Williams	27,500	–	202	**27,702**	94,599
Professor J.A. Kay**	25,000	–	–	**25,000**	6,538

Notes

1. * Mr Inglis ceased to be a director on 12 April 2005.
2. ** Professor Kay was a director for 3 months in 2004.
3. Mr Williams received compensation for loss of office in 2004 (equivalent to 3 months' pay in lieu of notice, calculated as his executive salary (£70,000) minus non-executive fee (£25,000), pro-rated for three months).
4. Total salary/fees for Mrs Banszky comprises basic salary plus non-pensionable cash allowances of £38,089 as set out in paragraphs 1 and 7.
5. No compensation or fee was paid to any individual who had previously been a director.

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

	Increase in accrued pension during 2005 £ pa	**Accumulated total accrued pension at 31 December 2005 £ pa**	Transfer value as at 31 December 2004 £000	**Transfer value as at 31 December 2005 £000**	Increase in transfer value £000
Mrs C.J. Banszky	**1,935**	**6,893**	53	**94**	41

1. The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 2005.
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. Mrs Banszky made no AVCs during the year.*
5. No previous directors are, or have been, in receipt of any excess retirement benefits.

13. Executive share option scheme (audited)

	Interest as at 31 December *2004*	Granted *in 2005*	Exercised *in 2005*	**Interest as at 31 December 2005**	Exercise *price*	Earliest *exercise*	Latest *exercise*
Mrs C.J. Banszky							
2002	31,205	–	–	**31,205**	211.50p	02.08.07	01.08.10
2003	38,596	–	–	**38,596**	174.40p	28.03.08	27.08.11
2004	31,364	–	–	**31,364**	228.20p	02.03.07	01.03.12

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 232.5p: the highest price during the year was 288.75p the lowest price was 232.5p.

14. Save as you earn share save plan (audited)

	Interest as at 31 December *2004*	Interest acquired *in 2005*	Exercise *price*	Market price at invitation *date*	Exercised *in 2005*	**Interest as at 31 December 2005**	Earliest *exercise*	Latest *exercise*
Mrs C.J. Banszky	9,237	–	172.40p	204.75p	–	**9,237**	01.08.08	01.02.09
Mr R.J. Williams	9,237	–	172.40p	204.75p	–	**9,237**	01.08.08	01.02.09

None of the terms and conditions relating to any of the options held under this scheme was varied during the year. Mr Williams acquired his interest when he was an executive director.

15. Deferred share bonus plan (audited)

	Interest at 31 December 2004	**Interest acquired in 2005**	Purchase price	**Interest at 31 December 2005**	Date shares to be released
Mrs C.J. Banszky	–	**9,632**	249.18p	**9,632**	13.05.08

The shares were purchased in the open market and will be held under trust by a Law Debenture subsidiary until the release date.

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

We have audited the group and parent company financial statements ("the financial statements") of The Law Debenture Corporation p.l.c. for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated statement of total recognised income and expense and the consolidated and company balance sheets, cash flow statements and statements of change in shareholders' equity and the related notes. The 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and 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 and whether, in addition, the group financial statements have been properly prepared in accordance with article 4 of the IAS Regulation. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC 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. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the investment manager's review, the management review – trustee and related services and the corporate governance statement. 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements 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 and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2005;
- the group financial statements have been properly prepared in accordance with article 4 of the IAS Regulation; 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 (UK) LLP.

PKF (UK) LLP
Registered Auditors
London, UK

28 February 2006

for the year ended 31 December

	Notes	Revenue 2005 £000	Capital 2005 £000	Total 2005 £000	Revenue 2004 £000	Capital 2004 £000	Total 2004 £000
UK dividends		**9,213**	**–**	**9,213**	8,021	–	8,021
UK special dividends		**135**	**–**	**135**	159	–	159
Overseas dividends		**1,442**	**–**	**1,442**	1,482	–	1,482
Overseas special dividends		**13**	**–**	**13**	–	–	–
Interest from securities		**138**	**–**	**138**	299	–	299
		10,941	**–**	**10,941**	9,961	–	9,961
Bank deposit interest		**1,068**	**–**	**1,068**	646	–	646
Trustee and other related fees	2	**23,208**	**–**	**23,208**	19,892**	–	19,892**
Other income		**107**	**–**	**107**	54	–	54
Total revenue		**35,324**	**–**	**35,324**	30,553	–	30,553
Net gain on investments held at fair value through profit or loss	3	**–**	**64,339**	**64,339**	–	30,461	30,461
Gross income and capital gains		**35,324**	**64,339**	**99,663**	30,553	30,461	61,014
Cost of sales		**(6,994)**	**–**	**(6,994)**	(4,983)**	-	(4,983)**
Administrative expenses	4	**(12,682)**	**(297)**	**(12,979)**	(11,936)	(203)	(12,139)
Operating profit		**15,648**	**64,042**	**79,690**	13,634	30,258	43,892
Finance costs							
Interest payable	6	**(2,471)**	**–**	**(2,471)**	(2,456)	–	(2,456)
Profit before taxation	7	**13,177**	**64,042**	**77,219**	11,178	30,258	41,436
Taxation	8	**(1,404)**	**–**	**(1,404)**	(1,148)	–	(1,148)
Profit for year	7	**11,773**	**64,042**	**75,815**	10,030	30,258	40,288
Return per ordinary share (pence)*	10			**64.72**			34.41
Diluted return per ordinary share (pence)	10			**64.72**			34.41

* No dilutive effect

** Restated to include recoverable legal fees as revenue and cost of sales

Statement of total recognised income and expense

for the year ended 31 December

	Revenue 2005 £000	Capital 2005 £000	Total 2005 £000	Revenue 2004 £000	Capital 2004 £000	Total 2004 £000
Profit for the financial year	**11,773**	**64,042**	**75,815**	10,030	30,258	40,288
Foreign exchange	**250**	**–**	**250**	(177)	–	(177)
Pension actuarial gains/(losses)	**20**	**–**	**20**	(1,766)	–	(1,766)
Taxation on pension	**(6)**	**–**	**(6)**	529	–	529
Total income and expense relating to the year	**12,037**	**64,042**	**76,079**	8,616	30,258	38,874

as at 31 December

	Notes	Group 2005 £000	Group 2004 £000	Corporation 2005 £000	Corporation 2004 £000
Assets					
Non current assets					
Property, plant and equipment	11	**739**	855	**–**	–
Intangible assets	12	**113**	193	**–**	–
Investments held at fair value through profit or loss	13	**380,747**	304,100	**375,855**	299,346
Investments in subsidiary undertakings	13	**–**	–	**90**	90
Other assets		**5**	7	**5**	7
Deferred tax assets	8	**2,106**	2,239	**–**	–
Total non current assets		***383,710***	*307,394*	***375,950***	*299,443*
Current assets					
Trade and other receivables	14	**7,368**	5,624	**320**	1,344
Other accrued income and prepaid expenses		**2,419**	1,680	**1,183**	1,194
Other current assets		**46**	49	**–**	23
Cash and cash equivalents	15	**19,295**	24,333	**6,909**	6,997
Total current assets		**29,128**	31,686	**8,412**	9,558
Total assets		**412,838**	339,080	**384,362**	309,001
Current liabilities					
Amounts owed to subsidiary undertakings		**–**	–	**47,475**	47,974
Trade and other payables	16	**7,912**	5,667	**1,779**	1,472
Short term borrowings	20	**5,696**	144	**5,686**	–
Corporation tax payable		**548**	736	**64**	–
Other taxation including social security		**433**	162	**288**	343
Deferred income		**4,326**	4,240	**13**	14
Total current liabilities		**18,915**	10,949	**55,305**	49,803
Non current liabilities					
Long term borrowings	20	**39,230**	39,204	**–**	–
Retirement benefit obligations	23	**6,443**	7,348	**–**	–
Deferred tax	8	–	47	**–**	–
Deferred income		**8,626**	9,018	**274**	285
Total non current liabilities		**54,299**	55,617	**274**	285
Total net assets		**339,624**	272,514	**328,783**	258,913
Equity					
Called up share capital	17	**5,882**	5,875	**5,882**	5,875
Share premium		**7,231**	7,026	**7,231**	7,026
Capital redemption		**8**	8	**8**	8
Share based payments		**114**	63	**–**	–
Own shares	17	**(963)**	(927)	**–**	–
Capital reserves	18	**309,075**	245,033	**304,683**	240,822
Retained earnings		**18,204**	15,613	**10,979**	5,182
Foreign exchange reserve		**73**	(177)	**–**	–
Total equity shareholders' funds		**339,624**	272,514	**328,783**	258,913

Approved by the board on 28 February 2006 and signed on its behalf by:

D.C.P. McDougall *Chairman*
C.J. Banszky *Managing director*

for the year ended 31 December

	Share capital £000	Share premium £000
Group		
Balance at 31 December 2003	5,862	6,532
Change in accounting policy	–	–
Restated balance	5,862	6,532
Equity at 1 January 2004	5,862	6,532
Net profit	–	–
Foreign exchange	–	–
Actuarial loss on pension scheme (net of tax)	–	–
Total income and expenditure	–	–
Issue of shares	13	494
Dividend relating to 2003	–	–
Dividend relating to 2004	–	–
Share based payment	–	–
Movement in own shares	–	–
Total equity shareholders' funds at 31 December 2004	5,875	7,026
Equity at 1 January 2005	**5,875**	**7,026**
Net profit	**–**	–
Foreign exchange	**–**	**–**
Actuarial gain on pension scheme (net of tax)	–	**–**
Total income and expenditure	–	**–**
Issue of shares	**7**	**205**
Dividend relating to 2004	**–**	–
Dividend relating to 2005	–	**–**
Share based payment	**–**	**–**
Movement in own shares	**–**	–
Total equity shareholders' funds at 31 December 2005	**5,882**	**7,231**

	Share capital £000	Share premium £000
Company		
Balance at 31 December 2003	5,862	6,532
Change in accounting policy	–	–
Restated balance	5,862	6,532
Equity at 1 January 2004	5,862	6,532
Net profit (and total income and expenditure)	–	–
Issue of shares	13	494
Dividend relating to 2003	–	–
Dividend relating to 2004	–	–
Total equity shareholders' funds at 31 December 2004	5,875	7,026
Equity at 1 January 2005	**5,875**	**7,026**
Net profit (and total income and expenditure)	**–**	**–**
Issue of shares	**7**	**205**
Dividend relating to 2004	–	**–**
Dividend relating to 2005	**–**	**–**
Total equity shareholders' funds at 31 December 2005	**5,882**	**7,231**

Capital reserves comprises realised and unrealised gains on investments held at fair value through profit or loss (see note 18).

Own shares £000	Capital redemption £000	Share based payments £000	Foreign exchange £000	Capital reserves £000	Retained earnings £000	Total £000
(567)	8	–	–	215,172	14,113	241,120
–	–	19	–	(397)	945	567
(567)	8	19	–	214,775	15,058	241,687
(567)	8	19	–	214,775	15,058	241,687
–	–	–	–	30,258	10,030	40,288
–	–	–	(177)	–	–	(177)
–	–	–	–	–	(1,237)	(1,237)
–	–	–	(177)	30,258	8,793	38,874
–	–	–	–	–	–	507
–	–	–	–	–	(4,957)	(4,957)
–	–	–	–	–	(3,281)	(3,281)
–	–	44	–	–	–	44
(360)	–	–	–	–	–	(360)
(927)	8	63	(177)	245,033	15,613	272,514
(927)	**8**	**63**	**(177)**	**245,033**	**15,613**	**272,514**
–	–	–	–	**64,042**	**11,773**	**75,815**
–	–	–	**250**	–	–	**250**
–	–	–	–	–	**14**	**14**
–	–	–	**250**	**64,042**	**11,787**	**76,079**
–	–	–	–	–	–	**212**
–	–	–	–	–	**(5,571)**	**(5,571)**
–	–	–	–	–	**(3,625)**	**(3,625)**
–	–	**51**	–	–	–	**51**
(36)	–	–	–	–	–	**(36)**
(963)	**8**	**114**	**73**	**309,075**	**18,204**	**339,624**

Own shares £000	Capital redemption £000	Share based payments £000	Foreign exchange £000	Capital reserves £000	Retained earnings £000	Total £000
–	8	–	–	211,070	3,297	226,769
–	–	–	–	(451)	1,597	1,146
–	8	–	–	210,619	4,894	227,915
–	8	–	–	210,619	4,894	227,915
–	–	–	–	30,203	8,526	38,729
–	–	–	–	–	–	507
–	–	–	–	–	(4,957)	(4,957)
–	–	–	–	–	(3,281)	(3,281)
–	8	–	–	240,822	5,182	258,913
–	**8**	–	–	**240,822**	**5,182**	**258,913**
–	–	–	–	**63,861**	**14,993**	**78,854**
–	–	–	–	–	–	**212**
–	–	–	–	–	**(5,571)**	**(5,571)**
–	–	–	–	–	**(3,625)**	**(3,625)**
–	**8**	–	–	**304,683**	**10,979**	**328,783**

for the year ended 31 December

	Group		Corporation	
	2005 £000	2004 £000	2005 £000	2004 £000
Operating activities				
Cash generated from operating activities	**14,948**	14,412	**19,007**	11,845
Taxation	**(1,315)**	(236)	**-**	–
Interest paid	**(2,471)**	(2,456)	**(3,117)**	(3,138)
Pension special contribution	**(885)**	–	**-**	–
Operating cash flow	**10,277**	11,720	**15,890**	8,707
Investing activities				
Capital expenditure	**(46)**	(37)	**-**	–
Expenditure on intangible assets	**(4)**	(20)	**-**	–
Purchase of investments	**(71,592)**	(49,917)	**(71,583)**	(49,867)
Sale of investments	**59,508**	56,444	**59,402**	56,444
Sale of property, plant and equipment	**37**	1	**-**	–
Cash flow from investing activities	**(12,097)**	6,471	**(12,181)**	6,577
Financing activities				
Subsidiary undertakings	**-**	–	**(499)**	(895)
Dividends paid	**(9,196)**	(8,238)	**(9,196)**	(8,238)
Proceeds of increase in share capital	**212**	507	**212**	507
Purchase of own shares	**(36)**	(360)	**-**	–
Net cash flow from financing activities	**(9,020)**	(8,091)	**(9,483)**	(8,626)
Net increase/(decrease) in cash and cash equivalents	**(10,840)**	10,100	**(5,774)**	6,658
Cash and cash equivalents at beginning of period	**24,189**	14,266	**6,997**	339
Exchange gains/(losses) on cash and cash equivalents	**250**	(177)	**-**	–
Cash and cash equivalents at end of period	**13,599**	24,189	**1,223**	6,997
Cash and cash equivalents comprise				
Cash and cash equivalents	**19,295**	24,333	**6,909**	6,997
Bank loans and overdrafts (see note 20)	**(5,696)**	(144)	**(5,686)**	–
	13,599	24,189	**1,223**	6,997

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

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

	2005 £000	2004 £000	2005 £000	2004 £000
Return including profit before interest and taxation	**15,648**	13,634	**18,371**	11,817
Depreciation of property and equipment	**131**	132	**-**	–
Depreciation of intangible assets	**84**	168	**-**	–
(Profit)/loss on sale of fixed assets	**(6)**	35	**-**	–
Share based payments	**51**	44	**-**	–
Decrease/(increase) in debtors	**(2,478)**	806	**1,076**	(274)
(Decrease)/increase in creditors	**2,236**	(61)	**278**	648
Transfer from capital reserves	**(521)**	(193)	**(521)**	(193)
UK and overseas withholding tax deducted at source	**(197)**	(153)	**(197)**	(153)
Net cash inflow from operating activities	**14,948**	14,412	**19,007**	11,845

1 Summary of significant accounting policies

General information

The Law Debenture Corporation p.l.c. is a public company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 8. The group's operations and its principal activities are as an investment trust and the provider of trustee and related services.

The consolidated financial statements are presented in pounds sterling thousands being the currency of the primary economic environment in which the group operates.

Basis of preparation

The consolidated financial statements of The Law Debenture Corporation p.l.c. have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the first time. The disclosures required by IFRS1, First-time Adoption of IFRS, are given on page 62.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of listed instruments held at fair value through profit or loss. Where presentational guidance set out in the Statement of Recommended Practice Financial Statements of Investment Trust Companies, December 2005 ("SORP") is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of The Law Debenture Corporation p.l.c. and entities controlled by the company (its subsidiaries) made up to the end of the financial period. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess consideration over the fair values of the identifiable net assets acquired is recognised as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. The financial statements of subsidiaries are adjusted, where necessary, to ensure the accounting policies used are consistent with those adopted by the group.

Presentation of income statement

In order to better reflect the activities of an investment trust company and in accordance with the SORP, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. In accordance with the Company's status as a UK investment company under Section 266 of the Companies Act 1985, net capital returns may not be distributed by way of dividend. Additionally, the net revenue is the measure the directors believe appropriate in assessing the group's compliance with certain requirements set out in Section 842 Income and Corporation Taxes Act 1988.

As permitted by section 230 of the Companies Act 1985, the Corporation has not presented its own income statement.

Segment reporting

A business segment is a group of assets and operations that are subject to risks and returns that are different from those of other business segments. The group comprises two business segments; the investment trust and trustee and related services. This is consistent with internal reporting. The overseas offices represent less than 10% of the assets and operations and consequently no separate geographical segment information is provided.

Foreign currencies

Transactions recorded in foreign currencies 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. Gains and losses on retranslation are included in net profit or loss for the period, however exchange gains or losses on investments held at fair value through profit or loss are included as part of their fair value gain or loss.

The assets and liabilities of overseas subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expenses of overseas subsidiaries are translated at the average exchange rates for the period. Exchange differences arising from the translation of net investment in foreign subsidiaries are classified as equity and transferred to the group's translation reserve.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Depreciation is calculated using the straight-line method to allocate the cost over the assets' estimated useful lives as follows:

Leasehold improvements	over the remaining time period
Office furniture and equipment	3-10 years

continued

1 **Summary of significant accounting policies** continued

Intangible assets

Computer software

Computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of between three and five years.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. All goodwill was written off to reserves under UK GAAP prior to 1998 and has not been reinstated.

Impairment of assets

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Investments

Investments

Listed investments, which comprise the investment trust portfolio, have been designated as investments held at fair value through profit or loss. Purchases and sales of listed investments are recognised on trade date, the date on which the group commits to purchase or sell the investment. Investments are initially recognised at fair value and transaction costs are expensed as incurred. Gains and losses arising from listed investments, as assets at fair value through profit or loss, are included in the income statement in the period in which they arise.

The fair value of listed investments is based on quoted market prices at the balance sheet date. The quoted market price used is the bid price.

Gains and losses on investments and direct transaction costs are analysed within the income statement as capital. All other costs of the investment trust are treated as revenue items.

Investments in subsidiary undertakings are stated at cost.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Share capital

Ordinary shares are classified as equity. The ordinary shares of the company which have been purchased by the Employee Share Ownership Trust to provide share based payments to employees are valued at cost and deducted from equity.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. The difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement over the term of the borrowings using the effective interest method, so as to generate a constant rate of return on the amount outstanding.

Taxation

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense which are either never taxable or deductible or are taxable or deductible in other periods. The group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

1 **Summary of significant accounting policies** continued

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to recover the asset. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is expected to be settled or the asset is expected to be realised based on tax rates that have been enacted or substantially enacted at the balance sheet date.

Revenue recognition

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income

Interest income is accrued on a time basis using the effective interest rate applicable.

Sales of services

Revenue comprises the fair value of the sales of services net of value added tax and after eliminating sales within the group. Sales of services are recognised in the accounting period in which the services are rendered, provided that the outcome of the transaction can be estimated reliably. Where the outcome of a transaction can be estimated reliably, sales are assessed on the basis of the actual services provided as a proportion of the total services to be provided.

Where payments are received in advance for trusteeships which extend beyond the period end, the amount relating to future periods is deferred using an appropriate discount rate.

Employee benefits

Pension costs

The company operates a defined benefit pension plan. The cost of providing benefits is determined using the projected unit credit method, with independent actuarial calculations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur through equity. Past service cost is recognised immediately to the extent that benefits are already vested, and otherwise amortised on a straight-line basis over the average period until the benefits become vested.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised past service costs.

Bonus schemes

The group recognises provisions in respect of its bonus schemes when contractually obliged or when there is a past practice that has created a constructive obligation.

Share based plans

The group has awarded share options to executives and the group makes equity based awards to executives.

In accordance with the transitional provisions for the implementation of the standard, the group has applied the requirements of IFRS 2 Share-based Payments to all grants of equity instruments made after 7 November 2002.

Share-based payments are measured at fair value at the date of grant using an appropriate option valuation technique, which is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Provisions

These comprise liabilities of uncertain timing or amounts that arise from litigation and other risks. Provisions are recognised when there exists a legal or constructive obligation stemming from a past event and when future cash flows can be reliably estimated. Provisions are measured at the best estimate of expenditure required to settle a present obligation at the balance sheet date. The best estimate is the amount which the entity would rationally pay to settle an obligation.

Leases

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by shareholders.

continued

2 Business and geographical segments

Trustee and related services income	2005 £000	2004 £000
Geographical analysis by location of client:		
United Kingdom	**12,783**	9,572
Overseas	**10,425**	10,320
	23,208	19,892

3 Total capital gains/(losses) from investments

	2005 £000	2004 £000
Realised gains based on historical cost	**11,577**	41
Amounts recognised as unrealised in previous years	**(11,233)**	340
Realised gains based on carrying value at previous balance sheet date	**344**	381
Unrealised profits on investments	**64,516**	30,273
	64,860	30,654
Transfers to revenue	**(521)**	(193)
	64,339	30,461

4 Administrative expenses

	2005 £000	2004 £000
Administrative expenses include:		
Salaries and directors' fees	**6,200**	5,793
Social security costs	**495**	511
Other pension costs	**957**	1,054
Investment management fee	**814**	708
Irrecoverable VAT on investment management fee	**65**	25
Depreciation – property and equipment	**131**	168
– intangible assets	**84**	132
(Profit)/loss on sale of property, plant and equipment	**(6)**	35
Office rent	**1,048**	1,005
Auditors' remuneration	**153**	120

During the year, the Corporation employed an average of 80 staff (2004: 80). All staff are engaged in the provision of trustee and related services.

Details of the terms of the investment management agreement are provided on page 23 of the directors' report.

Administrative expenses charged to capital are transaction costs incurred on the purchase of investments held at fair value through profit or loss.

4 Administrative expenses continued

A more detailed analysis of the auditors' remuneration on a worldwide basis is provided below:

	2005 £000	2004 £000
Audit services		
– statutory audit*	**102**	61
– audit related regulatory reporting	**3**	2
Tax services	**48**	55
Other services	**–**	2
	153	120

* Including the Corporation £26,000 (2004: £13,900).

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 not 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.

A description of the work of the audit committee is set out in the audit committee report on page 27 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors

5 Remuneration of directors

	2005 £000	2004 £000
Directors' emoluments, which comprise the following, are included in administrative expenses:		
Directors' fees	**163**	145
Management remuneration	**399**	454
	562	599

The emoluments of the highest paid director totalled £424,000 (2004: £381,000) and included pension contributions of £25,000 (2004: £21,000) and amounts accrued under the terms of the employee bonus plan of £120,000 (2004: £92,000). Her accrued pension entitlement is as follows:

	2005 £000
Increase during 2005 including inflation increase	**2**
Accumulated total accrued pension at 31 December 2005	**7**
Transfer value of increase in accrued pension based on actuarial advice	**25**

Annual pension entitlements shown above are based upon service up to 31 December 2005 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 30.

6 Finance costs

	2005 £000	2004 £000
Interest on debenture stock	**2,450**	2,450
Interest on bank overdrafts	**21**	6
	2,471	2,456

continued

7 Segmental analysis

	Investment trust		Trustee services		Total	
	31 December 2005 £000	31 December 2004 £000	**31 December 2005 £000**	31 December 2004 £000	**31 December 2005 £000**	31 December 2004 £000
Segment revenue	**10,941**	9,961	**23,208**	19,892*	**34,149**	29,853*
Other income	**61**	54	**46**	–	**107**	54
Cost of sales	**–**	–	**(6,994)**	(4,983)*	**(6,994)**	(4,983)*
Administration costs	**(1,684)**	(1,487)	**(10,998)**	(10,449)	**(12,682)**	(11,936)
	9,318	8,528	**5,262**	4,460	**14,580**	12,988
Interest (net)	**(2,411)**	(2,450)	**1,008**	640	**(1,403)**	(1,810)
Return, including profit on ordinary activities before taxation	**6,907**	6,078	**6,270**	5,100	**13,177**	11,178
Taxation	**(197)**	(153)	**(1,207)**	(995)	**(1,404)**	(1,148)
Return, including profit attributable to shareholders	**6,710**	5,925	**5,063**	4,105	**11,773**	10,030
Return per ordinary share	**5.73**	5.06	**4.32**	3.51	**10.05**	8.57
Assets	**384,362**	309,001	**28,476**	30,079	**412,838**	339,080
Liabilities	**(55,579)**	(50,088)	**(17,635)**	(16,478)	**(73,214)**	(66,566)
Total net assets	**328,783**	258,913	**10,841**	13,601	**339,624**	272,514

* Restated to include recoverable legal fees as revenue and cost of sales.

Other information

	£000	£000	**£000**	£000	**£000**	£000
Capital expenditure	**–**	–	**49**	57	**49**	57
Depreciation	**–**	–	**209**	335	**209**	335

A special dividend of £458,000 included as revenue in the 2005 interim report has been treated as capital in the financial statements.

8 Taxation

	2005 £000	2004 £000
Taxation based on revenue for the year comprises:		
UK corporation tax at 30%	**1,150**	1,019
Adjustment in respect of prior years	**(23)**	46
	1,127	1,065
Overseas tax:		
Current tax on income for the year	**197**	183
Adjustments in respect of prior periods	**–**	(30)
Total current tax charge	**1,324**	1,218
Deferred tax	**80**	(70)
	1,404	1,148
Return on ordinary activities before tax	**13,177**	11,178
Tax on ordinary activities at standard rate 30%	**3,953**	3,353
Effects of:		
Expenses not deductible for tax purposes	**124**	28
Higher rates of tax on overseas income	**82**	32
Tax credit on dividend income	**(2,811)**	(2,453)
Utilisation of losses brought forward	**(119)**	–
Adjustments in respect of prior periods	**(23)**	46
Unrelieved withholding tax	**138**	128
Recovery of overseas tax	**–**	(30)
Tax at small companies rate	**(14)**	–
Losses on overseas companies for which no tax relief arises	**11**	18
Other differences	**63**	26
	1,404	1,148

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.

Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting period.

Deferred tax assets

	Accelerated tax depreciation £000	Retirement benefit obligations £000	Employee benefits £000	Overseas earnings £000	Total £000
At 1 January 2004	(77)	1,684	18	(32)	1,593
(Charge)/credit to income	112	(9)	(1)	(32)	70
(Charge)/credit to equity	–	529	–	–	529
At 1 January 2005	35	2,204	17	(64)	2,192
(Charge)/credit to income	144	(265)	9	32	(80)
(Charge)/credit to equity	–	(6)	–	–	(6)
At 31 December 2005	**179**	**1,933**	**26**	**(32)**	**2,106**

continued

9 Dividends on ordinary shares

	2005 £000	2004 £000
Dividends on ordinary shares comprise the following:		
2005 interim 3.10p (2004: 2.80p)	**3,625**	3,281
2004 final 4.75p (2003: 4.24p)	**5,571**	4,957
Total for year	**9,196**	8,238
Proposed final dividend for the year ended 31 December 2005	**6,977**	

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements.

We also set out below the total dividend payable in respect of the financial year, which is the basis on which the requirements of Section 842 Income and Corporation Taxes Act 1988 are considered.

	2005 £000	2004 £000
2005 Interim 3.10p (2004: 2.80p)	**3,625**	3,293
2005 Final dividend 5.95p (2004 4.75p)	**6,977**	5,559
	10,602	8,852

On this basis Law Debenture satisfies the requirements of Section 842 of the Income and Corporation Taxes Act 1988, as amended by Section 117 Finance Act 1988, section 55 Finance Act 1990 and Schedule 30 paragraph 2 Finance Act 1996 as an approved Investment Trust Company.

Dividends have been waived in respect of the 493,678 shares owned by the Employee Share Ownership Trust (ESOT) (see Note 17).

10 Return per share from continuing operations

	2005 pence	2004 pence
Revenue return per ordinary share	**10.05**	8.57
Capital return per ordinary share	**54.67**	25.84
	64.72	34.41

Revenue return, including profit per share, is based on profits attributable of £13,177,000 (2004: £10,030,000).

Capital return per share is based on net capital gain for the year of £64,042,000 (2004: £30,258,000).

The calculations of both revenue and capital returns per share are based on 117,119,128 (2004: 117,015,421) shares, being the weighted average number of shares in issue during the year after adjusting for shares owned by the ESOT. Diluted revenue and capital returns per share are calculated using 117,381,471 (2004: 117,200,812) shares being the diluted weighted average number of shares in issue during the year assuming exercise of options at less then fair value, and the revenue and capital returns shown above.

11 Property, plant and equipment

						Group
			2005			2004
	Leasehold improvements £000	**Office furniture & equipment £000**	**Total £000**	Leasehold improvements £000	Office furniture & equipment £000	Total £000
Cost						
At 1 January	**757**	**687**	**1,444**	746	681	1,427
Additions at cost	**–**	**46**	**46**	19	18	37
Disposals at cost	**(18)**	**(46)**	**(64)**	(8)	(12)	(20)
At 31 December	**739**	**687**	**1,426**	757	687	1,444
Accumulated depreciation						
At 1 January	**197**	**392**	**589**	146	323	469
Charge	**54**	**77**	**131**	52	80	132
Disposals	**(6)**	**(27)**	**(33)**	(1)	(11)	(12)
At 31 December	**245**	**442**	**687**	197	392	589
Net book value at 31 December	**494**	**245**	**739**	560	295	855

The Corporation holds no property, plant and equipment.

12 Intangible assets

		Group
	Computer software 2005 £000	Computer software 2004 £000
Cost		
At 1 January	**554**	709
Additions at cost	**4**	21
Disposals at cost	**–**	(176)
At 31 December	**558**	554
Accumulated depreciation		
At 1 January	**361**	342
Charge	**84**	168
Disposals	**–**	(149)
At 31 December	**445**	361
Net book value at 31 December	**113**	193

The Corporation holds no intangible fixed assets.

continued

13 Investments

Investments held at fair value through profit or loss

	2005 Listed £000	2005 Unlisted £000	2005 Total £000	2004 Listed £000	2004 Unlisted £000	2004 Total £000
Group						
Opening cost at 1 January	**225,681**	**280**	**225,961**	232,420	231	232,651
Gains at 1 January	**78,133**	**6**	**78,139**	47,462	63	47,525
Opening fair value at 1 January	**303,814**	**286**	**304,100**	279,882	294	280,176
Purchases at cost	**71,583**	**9**	**71,592**	49,867	50	49,917
Cost of acquisition	**(297)**	**–**	**(297)**	(203)	–	(203)
Sales – proceeds	**(59,402)**	**(106)**	**(59,508)**	(56,220)	(224)	(56,444)
Realised gains/(losses) on sales	**11,570**	**7**	**11,577**	(182)	223	41
Unrealised gains/(losses)	**53,289**	**(6)**	**53,283**	30,670	(57)	30,613
Closing fair value at 31 December	**380,557**	**190**	**380,747**	303,814	286	304,100
Closing cost at 31 December	**249,135**	**190**	**249,325**	225,681	280	225,961
Gains	**131,422**	**–**	**131,422**	78,133	6	78,139
Closing fair value at 31 December	***380,557***	***190***	***380,747***	*303,814*	*286*	*304,100*

	2005 Listed £000	2005 Unlisted £000	2005 Total £000	2004 Listed £000	2004 Unlisted £000	2004 Total £000
Corporation						
Opening cost at 1 January	**225,756**	**–**	**225,756**	232,495	2	232,497
Gains at 1 January	**73,590**	**–**	**73,590**	42,952	78	43,030
Opening fair value at 1 January	**299,346**	**–**	**299,346**	275,447	80	275,527
Purchases at cost	**71,583**	**–**	**71,583**	49,867	–	49,867
Cost of acquisition	**(297)**	**–**	**(297)**	(203)	–	(203)
Sales – proceeds	**(59,402)**	**–**	**(59,402)**	(56,220)	(224)	(56,444)
Realised gains/(losses) on sales	**11,570**	**–**	**11,570**	(182)	223	41
Unrealised gains/(losses)	**53,055**	**–**	**53,055**	30,637	(79)	30,558
Closing fair value at 31 December	**375,855**	**–**	**375,855**	299,346	–	299,346
Closing cost at 31 December	**249,210**	**–**	**249,210**	225,756	–	225,756
Gains	**126,645**	**–**	**126,645**	73,590	–	73,590
Closing fair value at 31 December	**375,855**	**–**	**375,855**	299,346	–	299,346

Included in unlisted 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 the voting rights. These 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 £290,400 (2004: £273,500) in respect of these undertakings.

There were no amounts outstanding with these undertakings at the year end (2004: Nil).

13 Investments continued

Investments in subsidiary undertakings – Corporation

There has been no change to the investments in subsidiary undertakings, which are held at cost.

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 Holdings Inc. (incorporated in New York)
† Law Debenture Trust (Asia) Limited (incorporated in Hong Kong)
† Law Debenture Trust Corporation of New York (incorporated in New York)
† Law Debenture Trustees Limited
† LDC D R Trustee Limited
† The Law Debenture Corporation (Deutschland) Limited
The Law Debenture Corporation (H.K.) Limited (incorporated in Hong Kong)
† The Law Debenture Intermediary Corporation p.l.c.
† 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 Trade and other receivables

An allowance has been made in the group during the year for estimated irrecoverable amounts from the sale of services of £738,000 (2004: £622,000). This allowance has been determined by reference to past experience.

The directors consider that the carrying amount of receivables approximates to their fair value.

15 Cash and cash equivalents

These comprise of cash held at bank and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

16 Trade and other payables

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

continued

17 Called up share capital

	2005 £000	2004 £000
Authorised share capital		
133,000,000 ordinary shares of 5p each	**6,650**	6,650
Allotted, issued and fully paid share capital		
Value		
As at 1 January	**5,875**	5,862
Issued in year	**7**	13
As at 31 December	**5,882**	5,875

	Number	Number
Shares		
As at 1 January	**117,515,415**	117,249,585
Issued in year	**117,625**	265,830
As at 31 December	**117,633,040**	117,515,415

During the year to 31 December 2005, 117,625 shares were allotted under the SAYE Scheme and Executive Share Option Scheme for a total consideration of £210,888 which includes a premium of £205,006.

During the year, 20,581 options were granted under the Corporation's SAYE scheme. At 31 December 2005, options under the schemes exercisable from 2004 to 2011 at prices ranging from 162.6p to 245.8p per share were outstanding in respect of 826,217 (2004: 1,411,517) ordinary shares. During 2005, 350,765 options lapsed or were cancelled (2004: 1,538,834).

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.

Own shares held

	2005 £000	2004 £000
Own shares held – cost	**(963)**	(927)

The own shares held represent the cost of 493,678 (2004: 479,303) ordinary shares of 5p each in the Corporation, acquired by the ESOT in the open market. The shares have been acquired to meet the requirements of the Executive Share Option Scheme and the Deferred Share Bonus Plan. The dividends relating to the shares have been waived. The market value of the shares at 31 December 2005 was £1,425,495.

18 Capital reserves

	2005			2004		
	Unrealised appreciation £000	**Realised reserves £000**	**Total £000**	Unrealised appreciation £000	Realised reserves £000	Total £000
Group						
At 1 January	**77,557**	**167,476**	**245,033**	47,340	167,435	214,775
Transfer on disposal of investments	**(11,233)**	**11,233**	**–**	340	(340)	–
Net gains on investments	**64,516**	**344**	**64,860**	30,273	381	30,654
Cost of acquisition	**(297)**	**–**	**(297)**	(203)	–	(203)
Transfers to revenue	**(521)**	**–**	**(521)**	(193)	–	(193)
At 31 December	***130,022***	***179,053***	***309,075***	*77,557*	*167,476*	*245,033*

	2005			2004		
	Unrealised appreciation £000	**Realised reserves £000**	**Total £000**	Unrealised appreciation £000	Realised reserves £000	Total £000
Corporation						
At 1 January	**72,995**	**167,827**	**240,822**	42,833	167,786	210,619
Transfer on disposal of investments	**(11,233)**	**11,233**	**–**	340	(340)	–
Net gains on investments	**64,342**	**337**	**64,679**	30,218	381	30,599
Cost of acquisition	**(297)**	**–**	**(297)**	(203)	–	(203)
Transfers to revenue	**(521)**	**–**	**(521)**	(193)	–	(193)
At 31 December	**125,286**	**179,397**	**304,683**	72,995	167,827	240,822

Cumulative goodwill of £325,000 relating to companies presently within the group was written off directly to capital reserves in prior periods. No goodwill has arisen since 1998.

19 Financial instruments

The group's investment objective is to achieve long term capital growth 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 investment trust business 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 investment in equities and fixed interest securities and the net assets of the group's overseas subsidiaries denominated in currencies other than sterling. The company borrowed Japanese Yen with a sterling equivalent of £5.7 million to purchase shares in Japanese companies, which were held as investments held at fair value through profit or loss. Since the year end this loan has been settled. Risks are reduced by an international spread of investments. The financial assets denominated in currencies other than sterling were:

continued

19 Financial instruments continued

	Investments 2005 £m	Net monetary assets 2005 £m	Total currency exposure 2005 £m	Investments 2004 £m	Net monetary assets 2004 £m	Total currency exposure 2004 £m
Group						
US Dollar	**23.1**	**2.6**	**25.7**	18.2	2.1	20.3
Canadian Dollar	**0.7**	**–**	**0.7**	0.7	–	0.7
Euro	**32.3**	**1.5**	**33.8**	26.7	0.2	26.9
Danish Krone	**1.5**	**–**	**1.5**	2.6	–	2.6
Swedish Kroner	**–**	**–**	**–**	1.0	–	1.0
Swiss Franc	**6.1**	**–**	**6.1**	4.8	–	4.8
Hong Kong Dollar	**4.7**	**0.6**	**5.3**	–	0.4	0.4
Japanese Yen	**6.7**	**(5.7)**	**1.0**	–	–	–
	75.1	**(1.0)**	**74.1**	54.0	2.7	56.7

	Investments 2005 £m	Net monetary liabilities 2005 £m	Total currency exposure 2005 £m	Investments 2004 £m	Net monetary assets 2004 £m	Total currency exposure 2004 £m
Corporation						
US Dollar	**23.1**	**–**	**23.1**	18.2	–	18.2
Canadian Dollar	**0.7**	**–**	**0.7**	0.7	–	0.7
Euro	**32.3**	**–**	**32.3**	26.7	–	26.7
Danish Krone	**1.5**	**–**	**1.5**	2.6	–	2.6
Swedish Kroner	**–**	**–**	**–**	1.0	–	1.0
Swiss Franc	**6.1**	**–**	**6.1**	4.8	–	4.8
Japanese Yen	**6.7**	**(5.7)**	**1.0**	–	–	–
	70.4	**(5.7)**	**64.7**	54.0	–	54.0

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 £38.6million (2004: £28.7 million).

- **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 maturity of the group's existing borrowings is set out in Note 20. The group* has a multi-currency loan facility of £15 million of which £9.3 million was undrawn at 31 December 2005.
- **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 interest rate profile at 31 December 2005 was:

	Group				Corporation	
	Sterling £m	HK Dollars £m	US Dollars £m	Yen £m	Sterling £m	Yen £m
Fixed rate assets	**–**	**–**	**–**	**–**	**–**	**–**
Floating rate assets	**16.1**	**0.6**	**2.6**	**–**	**6.9**	**–**
Fixed rate liabilities*	**39.2**	**–**	**–**	**–**	**–**	**–**
Floating rate liabilities	**0.1**	**–**	**–**	**5.7**	**–**	**5.7**
Weighted average fixed rate	**6.125%**					

* Fixed for 30 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.

20 Bank overdrafts and loans

	2005 %	2004 %
The weighted average interest rates were as follows		
Bank overdrafts (Sterling)	**5.65**	5.38
Bank loan (Japanese yen)	**0.94**	–

The directors estimate the fair value of the group's borrowings as follows and have been classified by the earliest date on which repayment can be required.

	Group		Corporation	
	2005 £000	2004 £000	**2005 £000**	2004 £000
Borrowings are repayable as follows				
In one year or less	**5,696**	144	**5,686**	–
In more than five years				
Secured				
6.125% guaranteed secured bonds 2034	**39,230**	39,204	**–**	–

The sterling bank overdrafts of £10,000 (2004: £144,000) have been incurred in connection with the trustee business. The bank loan of £5,686,000 had a maturity of one month, has been repaid since the year end and for the purposes of the cash flow statement is considered to be a cash equivalent.

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 a 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.

Analysis of borrowings by currency

	Sterling *2005* £000	Japanese Yen *2005* £000	Total *2005* £000	Sterling *2004* £000
Bank overdrafts	**10**	**–**	**10**	144
Bank loan	**–**	**5,686**	**5,686**	–
	10	**5,686**	**5,696**	144

21 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$50million.

The group is also from time to time party to legal proceedings and/or claims, including the matters referred to on page 18, which arise in the ordinary course of the trustee and related services business. The directors do not believe that the outcome of any of the above proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the group's financial position.

The Corporation has provided a guarantee to a subsidiary undertaking in respect of the ongoing liabilities of the group defined benefit pension scheme, see note 23.

continued

22 Lease commitments

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings 2005 £000	Other 2005 £000	Total 2005 £000	Total 2004 £000
Less than one year	**1,023**	**10**	**1,033**	1,072
2-5 years inclusive	**4,561**	**12**	**4,573**	4,707
More than 5 years	**7,755**	**-**	**7,755**	8,663
	13,339	**22**	**13,361**	14,442

Lease payments represent rentals payable by the group for its office properties and computer equipment. The lease for the main property was negotiated for a term of 16 years and rentals are fixed for an average of five years. The average life of a lease for computer property was three years.

23 Pension commitments

The group operates a funded, defined benefit pension plan ("The Law Debenture Pension Plan") with pension benefits related to final pensionable pay. The assets of the plan are held in a separate trustee administered fund.

Actuarial gains and losses are recognised in full in the period in which they occur. The group has adopted the revised version of IAS19 (Employee Benefits) published in December 2004. As permitted by the revised standard, actuarial gains and losses are recognised outside profit or loss and presented in the statement of recognised income and expense. The liability recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of plan assets. The cost of providing benefits is determined using the Projected Unit Method.

At 31 December 2005, the expected rate of return on assets is 6.1% pa (2004: 6.6% pa). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the plan was invested in at 31 December 2005.

The estimated contributions expected to be paid to the plan during 2006 is £2.4 million (2005: £1.8 million). Contributions are subject to revision following the triennial actuarial valuation as at 31 December 2005, which is currently in progress.

The major assumptions in the 31 December 2005 disclosure under IAS 19 are shown below and are applied to membership data supplied at that date. This shows the net pension assets and liabilities.

	2005 %	2004 %
Principal actuarial assumptions		
Retail Price Inflation	**2.9**	2.9
Discount rate	**4.7**	5.3
5% LPI Pension increases in payment	**2.9**	2.7
General salary increases	**4.4**	4.9
Expected return on assets	**6.1**	6.6
Life expectancy of male aged 65 in 2005	**20.8**	20.8
Life expectancy of male aged 65 in 2025	**22.0**	22.0

23 Pension commitments continued

	2005 £000	2004 £000
Present value of defined benefit obligation	**27,371**	24,010
Fair value of plan assets	**(20,928)**	(16,662)
Deficit in balance sheet	**6,443**	7,348

	2005 £000	2004 £000
The amounts recognised in profit or loss are as follows:		
Employer's part of current service cost	**814**	811
Interest cost	**1,282**	1,096
Expected return on plan assets	**(1,143)**	(1,030)
Total expense recognised in profit or loss	**953**	877

	Allocation	2005 £000	Allocation	2004 £000
The current allocation of plan assets is as follows:				
Equities	**60%**	**12,621**	63%	10,549
Bonds	**8%**	**1,755**	9%	1,529
Gilts	**23%**	**4,695**	18%	2,948
Pensioner annuities	**5%**	**953**	6%	1,052
Property	**3%**	**709**	4%	627
Other	**1%**	**195**	0%	(43)
Total	**100%**	**20,928**	100%	16,662

	2005 £000	2004 £000
Reconciliation of present value of defined benefit obligation		
Opening defined benefit obligation	**24,010**	20,222
Employer's part of current service cost	**814**	811
Interest cost	**1,282**	1,096
Actuarial losses	**1,704**	2,537
Benefits paid	**(439)**	(656)
Closing defined benefit obligation	**27,371**	24,010

continued

23 Pension commitments continued

	2005 £000	2004 £000
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	**16,662**	14,609
Expected return on plan assets	**1,143**	1,030
Actuarial gains	**1,724**	771
Contributions by the employer	**1,838**	908
Benefits paid	**(439)**	(656)
Closing fair value of plan assets	**20,928**	16,662

	2005 £000	2004 £000	2003 £000	2002 £000	2001 £000
Principal actuarial assumptions					
Present value of defined benefit obligation	**27,371**	24,010	20,222	16,922	14,273
Fair value of plan assets	**(20,928)**	(16,662)	(14,609)	(11,661)	(12,829)
Deficit	**6,443**	7,348	5,613	5,261	1,444
Experience adjustments on plan assets					
Amount of gain/(loss)	**1,724**	771	1,592	(2,721)	
Percentage of plan assets	**8%**	5%	11%	(23%)	
Experience adjustments on plan liabilities					
Amount of gain/(loss)	**797**	(62)	157	(58)	
Percentage of the present value of the plan liabilities	**3%**	–	1%	–	
Expense to be recognised immediately outside profit or loss					
Actuarial (gains) and losses	**(20)**	(1,766)	708	(3,806)	

The information in respect of 2001, above, is unavailable.

24 Share based payments

The group operates a share option scheme for certain executive directors and senior members of staff.

Details of the share options outstanding were:

	Share options 2005 Number	Weighted average price 2005 Pence	Share options 2004 Number	Weighted average price 2004 Pence
Outstanding at 1 January	**1,153,262**	**213.04**	2,697,314	224.05
Granted during the year	**–**	**–**	175,543	228.20
Exercised during the year	**(112,500)**	**176.88**	(262,500)	190.54
Lapsed/forfeited during the year	**(350,765)**	**245.80**	(1,457,095)	239.30
Outstanding at 31 December	**689,997**	**202.26**	1,153,262	213.04
Exercisable at 31 December	**247,500**	**212.10**	360,000	201.11

	2005 Pence	2004 Pence
Weighted average share price at date of exercise	**260.22**	218.50

Details of the number of option holders are given on page 23 of the directors' report.

Inputs into the Black-Scholes model are as follows:

	2005	2004
Expected volatility	**20%**	20%
Interest rate	**5%**	5%
Expected life (years)	**3**	3

Expected volatility was determined by using the barra number for annual volatility of the group's share price. The expected life used in the model has been adjusted based on the management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

The group recognised total expenses of £51,000 (2004: £63,000) in respect of share based payment transactions.

During the year the group established a Deferred Share Bonus Plan (see page 32). The group made awards in respect of 51,145 shares with a market value of £127,000, which will be released to executives on 13 May 2008. The shares are held in the ESOT. The cost of the shares is being charged to the income statement over the vesting period.

25 Related party transactions

Group

Transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation.

Corporation

The related party transactions between the Corporation and its wholly owned subsidiary undertakings are summarised as follows:

	2005 £000	2004 £000
Dividends from subsidiaries	**8,450**	3,350
Interest on intercompany balances charged by subsidiaries	**3,138**	3,117
Management charges from subsidiaries	**415**	559

The Law Debenture Corporation p.l.c. is reporting its financial results in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union from 1 January 2005. This note presents and explains the consolidated results of the group converted from UK Generally Accepted Accounting Principles (UK GAAP) onto an IFRS basis for the year ended 31 December 2004.

The transition date for adoption of IFRS determined in accordance with IFRS 1, *First Time Adoption of International Financial Reporting Standards*, is 1 January 2004.

The standards giving rise to most significant changes to the consolidated results of the group on transition from UK GAAP to IFRS were:

IFRS 2 Share-based payments

IAS 10 Events after the balance sheet date

IAS 12 Income taxes

IAS 19 Employee benefits

IAS 21 The effects of changes in foreign exchange rates

IAS 32 Financial instruments: disclosure and presentation

IAS 39 Financial instruments: recognition and measurement

Basis of preparation

The restatement has been prepared on the basis of all IFRS and Standard Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) interpretations currently issued by the International Accounting Standards Board (IASB) effective for 2005 reporting and adopted by the European Union. In addition, the IASB issued an amendment to IAS 19 – 'Employee Benefits' in December 2004 which permits the full recognition of actuarial gains or losses that occur in the year outside the income statement in a similar way to FRS 17 under UK GAAP. Law Debenture has decided to adopt this amendment early and so has prepared this restatement on this basis.

Major differences between UK GAAP and IFRS

a) Under IFRS 2 – 'Share-based Payments'; the group has to recognise a charge to income in respect of the fair value of outstanding share options granted to employees and shares allocated to employees under the long term incentive plan after 7 November 2002. The fair value has been calculated using a Black-Scholes option valuation model and is charged to income over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting. The total cost of these options is shown on the income statement for 31 December 2004.

b) Under IAS 10 – 'Events after the Balance Sheet Date'; dividends declared after the balance sheet date are not recognised as a liability in the balance sheet and so the group's final dividend has not been provided.

c) Under IAS 12 – 'Income taxes'; the group will be providing for deferred taxes on overseas subsidiary dividends and on other adjustments due to IFRS accounting changes, as necessary. These adjustments are shown on both balance sheet and income statements.

d) Under IAS 19 – 'Employee benefits'; assets and liabilities and the appropriate deferred tax credits of the group's pension plan are now fully recognised on the balance sheet. Actuarial gains and losses are recognised in full in the period in which they occur through equity.

The other adjustments under IAS 19 are to accrue for paid annual leave and other short and long term employee benefits. The net cost of these amendments is shown on the revised income statements.

e) Under IAS 21 – 'The effects of foreign exchange rates'; the group operates internationally and is exposed to foreign exchange risk, primarily with respect to the US dollar. Foreign exchange differences arise on net investments in foreign operations. The effect of this risk is shown in the income statement and changes in equity statement.

f) Under IAS 38 – 'Intangible assets'; any capitalised software that is not an integral part of the related hardware is reclassified from property, plant and equipment to intangible assets. The effects of this reallocation are shown on the restated balance sheets.

g) Under IAS39 – 'Financial instruments recognition and measurement'; investments previously reported at mid-market value are now shown at bid price and classified as "investments held at fair value through profit or loss". Transaction costs of investments previously recognised as part of the cost of investment under UK GAAP are now expensed as incurred. This adjustment is shown in the revised income statement.

h) There are other reclassifications on the balance sheet mainly to separate out current and non-current assets and liabilities in accordance with IAS 1 – 'Presentation of Financial Statements'.

at 1 January 2004

Effects of IFRS	UK GAAP £000	Financial instruments IAS32/39 £000
Assets		
Non currrent assets		
Property, plant and equipment	1,327	–
Intangible assets	–	–
Investments held at fair value through profit or loss	280,573	(397)
Other assets	9	–
Deferred tax assets	–	–
Total non current assets	281,909	(397)
Current assets	–	–
Trade and other receivables	6,385	–
Other accrued income and prepaid expenses	2,065	–
Other current assets	2	–
Cash and cash equivalents	14,266	–
Total current assets	22,718	–
Total assets	304,627	(397)
Current liabilities		
Trade and other payables	8,925	–
Current tax payable	383	–
Deferred income	5,208	–
Total current liabilities	14,516	–
Non current liabilities		
Long term borrowings	39,176	–
Retirement benefit obligations	–	–
Deferred tax	77	–
Deferred income	9,738	–
Total non current liabilities	48,991	–
Total net assets	241,120	(397)
Equity		
Called up share capital	5,862	–
Share premium	6,532	–
Capital redemption	8	–
Share based payments	–	–
Own shares	(567)	–
Other reserves	215,172	(397)
Retained earnings	14,113	–
Total equity shareholders' funds	241,120	(397)

IFRS adjustments						IFRS
Dividends IAS32 £000	Retirement benefits IAS19 £000	Share based payments IFRS2 £000	Employee benefits IAS19 £000	Computer software IAS38 £000	Overseas earnings IAS12 £000	£000
–	–	–	–	(367)	–	960
–	–	–	–	367	–	367
–	–	–	–	–	–	280,176
–	–	–	–	–	–	9
–	1,684	–	–	–	–	1,684
–	1,684	–	–	–	–	283,196
–	–	–	–	–	–	
–	–	–	–	–	–	6,385
–	–	–	–	–	–	2,065
–	–	–	–	–	–	2
–	–	–	–	–	–	14,266
–	–	–	–	–	–	22,718
–	1,684	–	–	–	–	305,914
(4,957)	–	–	50	–	–	4,018
–	–	–	–	–	–	383
–	–	–	–	–	–	5,208
(4,957)	–	–	50	–	–	9,609
–	–	–	–	–	–	39,176
–	5,613	–	–	–	–	5,613
–	–	–	(18)	–	32	91
–	–	–	–	–	–	9,738
–	5,613	–	(18)	–	32	54,618
4,957	(3,929)	–	(32)	–	(32)	241,687
–	–	–	–	–	–	5,862
–	–	–	–	–	–	6,532
–	–	–	–	–	–	8
–	–	19	–	–	–	19
–	–	–	–	–	–	(567)
–	–	–	–	–	–	214,775
4,957	(3,929)	(19)	(32)	–	(32)	15,058
4,957	(3,929)	–	(32)	–	(32)	241,687

at 31 December 2004

Effects of IFRS	UK GAAP £000	Financial instruments IAS32/39 £000
Assets		
Non current assets		
Property, plant and equipment	1,048	–
Intangible assets	–	–
Investments held at fair value through profit or loss	304,609	(509)
Other assets	7	–
Deferred tax assets	35	–
Total non current assets	305,699	(509)
Current assets	–	–
Trade and other receivables	5,624	–
Other accrued income and prepaid expenses	1,680	–
Other current assets	49	–
Cash and cash equivalents	24,333	–
Total current assets	31,686	–
Total assets	337,385	(509)
Current liabilities		
Trade and other payables	11,181	–
Short term borrowings	144	–
Current tax payable	898	–
Deferred income	4,240	–
Total current liabilities	16,463	–
Non current liabilities		
Long term borrowings	39,204	–
Retirement benefit obligations	–	–
Deferred tax	–	–
Deferred income	9,018	–
Total non current liabilities	48,222	–
Total net assets	272,700	(509)
Equity and liabilities		
Called up share capital	5,875	–
Share premium	7,026	–
Capital redemption	8	–
Share based payments	–	–
Own shares	(927)	–
Other reserves	245,542	(509)
Retained earnings	15,176	–
Total equity shareholders' funds	272,700	(509)

IFRS adjustments						IFRS
Dividends IAS32 £000	Retirement benefits IAS19 £000	Share based payments IFRS2 £000	Employee benefits IAS19 £000	Computer software IAS38 £000	Overseas earnings IAS12 £000	**£000**
–	–	–	–	(193)	–	**855**
–	–	–	–	193	–	**193**
–	–	–	–	–	–	**304,100**
–	–	–	–	–	–	**7**
–	2,204	–	–	–	–	**2,239**
–	2,204	–	–	–	–	**307,394**
–	–	–	–	–	–	
–	–	–	–	–	–	**5,624**
–	–	–	–	–	–	**1,680**
–	–	–	–	–	–	**49**
–	–	–	–	–	–	**24,333**
–	–	–	–	–	–	**31,686**
–	2,204	–	–	–	–	**339,080**
(5,571)	–	–	57	–	–	**5,667**
–	–	–	–	–	–	**144**
–	–	–	–	–	–	**898**
–	–	–	–	–	–	**4,240**
(5,571)	–	–	57	–	–	**10,949**
–	–	–	–	–	–	**39,204**
–	7,348	–	–	–	–	**7,348**
–	–	–	(17)	–	64	**47**
–	–	–	–	–	–	**9,018**
–	7,348	–	(17)	–	64	**55,617**
5,571	(5,144)	–	(40)	–	(64)	**272,514**
–	–	–	–	–	–	**5,875**
–	–	–	–	–	–	**7,026**
–	–	–	–	–	–	**8**
–	–	63	–	–	–	**63**
–	–	–	–	–	–	**(927)**
–	–	–	–	–	–	**245,033**
5,571	(5,144)	(63)	(40)	–	(64)	**15,436**
5,571	(5,144)	–	(40)	–	(64)	**272,514**

for the year ended 31 December 2004

	2004 UK GAAP Revenue £000	Capital £000	Total £000	Revenue employee benefits IAS19 £000
UK dividends	8,021	–	8,021	–
Special dividends	159	–	159	–
Overseas dividends	1,482	–	1,482	–
Interest from securities	299	–	299	–
	9,961	–	9,961	–
Bank deposit interest	646	–	646	–
Trustee and other related fees	19,892**	–	19,892	–
Other income	54	–	54	–
Total revenue	30,553	–	30,553	–
Net gain on investments held at fair value through profit or loss	–	30,370	30,370	–
Gross income and capital gains	30,553	30,370	60,923	–
Cost of sales	(4,983)**	–	(4,983)	–
Administrative expenses	(11,916)	–	(11,916)	(7)
Operating profit	13,654	30,370	44,024	(7)
Finance costs:				
Interest payable on Debenture stock	(2,456)	–	(2,456)	–
Profit before taxation	11,198	30,370	41,568	(7)
Taxation	(1,106)	–	(1,106)	(1)
Profit for year	10,092	30,370	40,462	(8)
Return per ordinary share (pence)*	8.62	25.94	34.55	–
Diluted return per Ordinary share (pence)	8.62	25.94	34.55	–

* No dilutive effect

** Restated to include legal expenses as revenue and cost of sales.

Statement of total recognised income and expenses

for the year ended 31 December 2004

	2004 UK GAAP Revenue £000	Capital £000	Total £000	Revenue £000
Profit for the financial year	10,092	30,370	40,462	(8)
Pension cost actuarial loss	–	–	–	–
Taxation on actuarial loss	–	–	–	–
Foreign exchange	(177)	–	(177)	–
Total income and expenses relating to the year	9,915	30,370	40,285	(8)

Effect of transition				2004 IFRS		
Revenue retirement benefits IAS19 £000	Revenue share based payments IFRS2 £000	Revenue overseas earnings £000	Capital investments IAS32/39 £000	Revenue £000	Capital £000	Total £000
–	–	–	–	8,021	–	8,021
–	–	–	–	159	–	159
–	–	–	–	1,482	–	1,482
–	–	–	–	299	–	299
–	–	–	–	9,961	–	9,961
–	–	–	–	646	–	646
–	–	–	–	19,892	–	19,892
–	–	–	–	54	–	54
–	–	–	–	30,553	–	30,553
–	–	–	91	–	30,461	30,461
–	–	–	91	30,553	30,461	61,014
–	–	–	–	(4,983)	–	(4,983)
31	(44)	–	(203)	(11,936)	(203)	(12,139)
31	(44)	–	(112)	13,634	30,258	43,892
–	–	–	–	(2,456)	–	(2,456)
31	(44)	–	(112)	11,178	30,258	41,436
(9)	–	(32)	–	(1,148)	–	(1,148)
22	(44)	(32)	(112)	10,030	30,258	40,288
–	–	–	–	8.57	25.84	34.41
–	–	–	–	8.57	25.84	34.41

Effect of transition				2004 IFRS		
Revenue £000	Revenue £000	Revenue £000	Capital £000	Revenue £000	Capital £000	Total £000
22	(44)	(32)	(112)	10,030	30,258	40,288
(1,766)	–	–	–	(1,766)	–	(1,766)
529	–	–	–	529	–	529
–	–	–	–	(177)	–	(177)
(1,215)	(44)	(32)	(112)	8,616	30,258	38,874

at 1 January 2004

Effects of IFRS	UKGAAP	IFRS adjustments			IFRS
	£000	Dividends IAS32 £000	Financial instruments IAS32/39 £000	Other £000	£000
Assets					
Non currrent assets					
Investments held at fair value through profit or loss	275,924	–	(451)	–	**275,473**
Investments in subsidiary undertakings	90	–	–	–	**90**
Other assets	9	–	–	–	**9**
Total non currrent assets	276,023	–	(451)	–	**275,572**
Current assets					
Amounts owed by subsidiary undertakings	3,350	(3,350)	–	–	**–**
Trade and other receivables	1,133	–	–	–	**1,133**
Other accrued income and prepaid expenses	1,165	–	–	–	**1,165**
Other current assets	3	–	–	–	**3**
Cash and cash equivalents	339	–	–	–	**339**
Total current assets	5,990	(3,350)	–	–	**2,640**
Total assets	282,013	(3,350)	(451)	–	**278,212**
Current liabilities					
Amounts owed to subsidiary undertakings	48,869	–	–	–	**48,869**
Trade and other payables	5,862	(4,957)	–	10	**915**
Other taxation	178	–	–	–	**178**
Deferred income	14	–	–	–	**14**
Total current liabilities	54,923	(4,957)	–	10	**49,976**
Non current liabilities					
Deferred income	321	–	–	–	**321**
Total non current liabilities	321	–	–	–	**321**
Total net assets	226,769	1,607	(451)	(10)	**227,915**
Equity					
Called up share capital	5,862	–	–	–	**5,862**
Share premium	6,532	–	–	–	**6,532**
Capital redemption	8	–	–	–	**8**
Other reserves	*211,070*	–	*(451)*	–	***210,619***
Retained earnings	3,297	1,607	–	(10)	**4,894**
Total equity shareholders' funds	226,769	1,607	(451)	(10)	**227,915**

at 31 December 2004

Effects of IFRS	UKGAAP	IFRS adjustments			IFRS
		Dividends IAS32	Financial instruments IAS32/39	Other	
	£000	£000	£000	£000	**£000**
Assets					
Non currrent assets					
Investments held at fair value through profit or loss	299,839	–	(493)	–	**299,346**
Investments in subsidiary undertakings	90	–	–	–	**90**
Other assets	7	–	–	–	**7**
Total non currrent assets	299,936	–	(493)	–	**299,443**
Current assets					
Amounts owed by subsidiary undertakings	4,058	(4,058)	–	–	**–**
Trade and other receivables	1,344	–	–	–	**1,344**
Other accrued income and prepaid expenses	1,194	–	–	–	**1,194**
Other current assets	39	–	–	(16)	**23**
Cash and cash equivalents	6,997	–	–	–	**6,997**
Total current assets	13,632	(4,058)	–	(16)	**9,558**
Total assets	313,568	(4,058)	(493)	(16)	**309,001**
Current liabilities					
Amounts owed to subsidiary undertakings	47,974	–	–	–	**47,974**
Trade and other payables	7,012	(5,571)	–	31	**1,472**
Other taxation	311	–	–	32	**343**
Deferred income	14	–	–	–	**14**
Total current liabilities	55,311	(5,571)	–	63	**49,803**
Non current liabilities					
Deferred income	285	–	–	–	**285**
Total non current liabilities	285	–	–	–	**285**
Total net assets	257,972	1,513	(493)	(79)	**258,913**
Equity and liabilities					
Called up share capital	5,875	–	–	–	**5,875**
Share premium	7,026	–	–	–	**7,026**
Capital redemption	8	–	–	–	**8**
Other reserves	241,331	–	(493)	(16)	**240,822**
Retained earnings	3,732	1,513	–	(63)	**5,182**
Total equity shareholders' funds	257,972	1,513	(493)	(79)	**258,913**

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 a share savings scheme on a monthly basis and who wish to apply HM Revenue & Customs' 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 share information
Information about the Corporation can be found on its internet web site **http://www.lawdeb.com.** The market price of its ordinary shares is published in the *Financial Times*, *The Times*, *The Daily Telegraph*, *The Guardian*, *The Independent*, and the *Daily Mail*.

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,
FREEPOST,
Princess House,
27 Bush Lane,
London EC4R 0AA.
Tel No: 0845 601 5600.

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

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.

The 116th annual general meeting of The Law Debenture Corporation p.l.c. will be held at 10.30am on Tuesday 11th April 2006 at the Brewers Hall, Aldermanbury Square, London EC2V 7HR. A map of the venue is shown on the inside back cover.

Notes explaining the resolutions in more detail, and describing the procedure for voting by proxy are set out in the following pages.

Notice of annual general meeting
NOTICE IS HEREBY GIVEN that the one hundred and sixteenth annual general meeting of the Corporation will be held on 11 April 2006 at 10.30am at the Brewers Hall, Aldermanbury Square, London EC2V 7HR for the following purposes:

Ordinary business

1. To receive the report of the directors and the audited accounts for the year ended 31 December 2005.
2. To receive and approve the directors' remuneration report for the year ended 31 December 2005.
3. *To declare a final dividend of 5.95 pence per share in respect of the year ended 31 December 2005.*
4. To re-elect R.J. Williams as a director.
5. To re-elect A.C. Cates as a director.
6. To reappoint PKF (UK) LLP as auditors of the Corporation to hold office until the conclusion of the next general meeting at which accounts are laid and to authorise the directors to determine their remuneration.

Special business
To consider and, if thought fit, to pass the following resolutions which will be proposed as special resolutions:

7. **General authority to buy back shares**
   THAT the Corporation be and is generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163 of the Act) of any of its issued ordinary shares of 5 pence each in the capital of the Corporation ("Shares"), in such manner and upon such terms as the directors of the Corporation may from time to time determine, PROVIDED ALWAYS THAT:

   (a) the maximum number hereby authorised to be purchased shall be limited to 17,633,192 Shares, or if less, that number of Shares which is equal to 14.99% of the Corporation's issued share capital as at the date of the passing of this resolution;

   (b) the minimum price which may be paid for a Share shall be 5 pence;

   (c) *the maximum price which may be paid for a Share shall be an amount equal to 105 per cent.* of the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the Shares for the five business days immediately preceding the day on which the Share is purchased;

   (d) *unless previously revoked, renewed or varied, the authority hereby conferred shall expire* on the date of the Corporation's next Annual General Meeting provided that a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of Shares may be made in pursuance of any such contract.

continued

8. **General authority to allot shares**

THAT:

(a) the directors be generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 to exercise for the period ending on the date of the Corporation's next Annual General Meeting, all the powers of the Corporation to allot relevant securities (as defined in Section 80(2) of the said Act) up to an aggregate nominal amount of £294,082;

(b) the Corporation may during such period make offers or agreements which would or might require the making of allotments of equity securities or relevant securities as the case may be after the expiry of such period.

9. **Disapplication of statutory pre-emption rights**

THAT:

(a) in exercise of the authority given to the directors by resolution 8 above, the directors be empowered to allot equity securities (as defined in Section 94(2) of the said Act) for the period ending on the date of the Corporation's next Annual General Meeting wholly for cash generally up to an aggregate nominal amount of £294,082 as if Section 89(1) of the said Act did not apply to such allotment;

(b) the Corporation may during such period make offers or agreements which would or might require the making of allotments of equity securities or relevant securities as the case may be after the expiry of such period.

By order of the board

Law Debenture Corporate Services Limited
Secretary

28 February 2006

Registered office:
Fifth Floor
100 Wood Street
London EC2V 7EX
Registered No. 30397

1. A member who holds ordinary shares on the register of members and is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his or her place. A proxy need not be a member of the Corporation.
2. If you hold your shares on the register of members (as opposed to holding them in a nominee), you will find enclosed a form of proxy for use at the meeting. To be valid, forms of proxy must be lodged at the office of the Corporation's registrar, Computershare Investor Services plc, PO Box 1075, Bristol BS99 3ZZ, not less than 48 hours before the time appointed for the holding of the meeting. Lodgement of a form of proxy will not prevent a member from attending and voting in person.
3. In accordance with the requirements of the Companies Act 1985, the register of directors' interests will be available for inspection at the registered office of the Corporation during normal business hours and at the annual general meeting. No director has a service contract with the Corporation of more than one year's duration.
4. Subject to the dividend on the ordinary shares now recommended being approved at the annual general meeting, dividends will be paid on 19 April 2006 to shareholders on the register on the record date on 17 March 2006.
5. Resolution 2 is to receive and approve the directors' remuneration report for the year ended 31 December 2005. The remuneration report is set out at pages 30 to 35 of the annual report of the Corporation.
6. Resolution 4: Mr R.J. Williams, having become a non-executive director as at 1 January 2005, and having served more than nine years on the board, is required under the Code on Corporate Governance to stand for annual re-election. The board supports his re-election because Mr Williams has continued to provide excellent service as a non-executive director, as evidenced in his appraisal by the chairman, and the board remains confident that he will continue to provide valuable advice on a range of matters connected both with the investment trust and the trustee business. His biography is included on page 5 of the annual report.
7. Resolution 5: Mr A.C. Cates is required under the Articles of Association to retire and to offer himself for re-election, it being three years since his last re-election. The board supports his re-election. He has performed well as senior non-executive director as evidenced in his appraisal by the chairman. He makes a full and valuable contribution to the board and his extensive knowledge of the commercial trust sector is particularly valued. His biography is included on page 5 of the annual report.
8. Resolution 6 is to re-appoint PKF (UK) LLP as the Corporation's auditors. PKF (UK) LLP and its predecessor firm have been the Corporation's auditors since October 2002.
9. Special resolution 7 renews the authority given to directors at the last annual general meeting to purchase ordinary shares in the market for cancellation. Such purchases at appropriate times and prices could be a suitable method of enhancing shareholder value and would be applied within guidelines set from time to time by the board. It should be noted that no such purchases would be undertaken if shares were trading at or near a premium to net asset value.

continued

10. Special resolution 8 renews the authority given to directors at the last annual general meeting to allot unissued capital not exceeding 5,881,652 shares, being 5% of the issued share capital. This authority is sought principally to allow the directors to satisfy demand for shares from participants in the Personal Equity Plan and Individual Savings Account, and would be exercised only at times when it would be advantageous to the Corporation's shareholders to do so. Shares would not be issued under this authority at a price lower than net asset value at the time of the issue. If approved, the authority will continue to operate until the next annual general meeting.

11. Special resolution 9 is proposed because the directors consider that in order to allot shares in the circumstances described in resolution 8 it is in the best interests of the Corporation and its shareholders to allot a maximum of 5,881,652 shares other than on a pre-emptive basis.