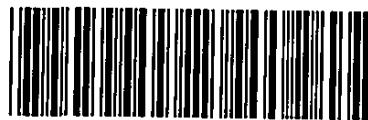


The Law Debenture Corporation p.l.c.

Annual Report 2010

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From its origins in 1889, Law Debenture has diversified to become a group with a unique range of activities in the financial and professional services sectors. 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 All-Share Index through investing in a portfolio diversified both geographically and by industry

**Independent fiduciary services**

We are a leading provider of independent fiduciary services. Our activities are corporate trusts, treasury management and structured finance administration, pension trusts, corporate services (including agent for service of process), whistle blowing services and board effectiveness services. We have offices in London, Sunderland, New York, Delaware, Hong Kong, the Channel Islands and the Cayman Islands.

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

## 2 10 year record

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net assets <sup>1</sup> (£m)	294.6	260.3	199.6	241.7	272.5	339.6	392.6	407.1	266.4	342.4	<b>412.6</b>
Revenue return <sup>2</sup> (pence)	7.85	7.05	6.33	6.91	8.57	10.05	12.19	14.23	15.58	13.02	<b>13.26</b>
Capital return <sup>2</sup> (pence)	5.08	(29.75)	(50.12)	37.31	25.85	54.67	40.94	9.37	(120.59)	62.77	<b>58.22</b>
Total <sup>2</sup> (pence)	12.93	(22.70)	(43.79)	44.22	34.42	64.72	53.13	23.60	(105.01)	75.79	<b>71.48</b>
Revenue return <sup>2</sup> (pence)											
Investment trust	5.45	4.07	4.10	4.51	5.06	5.73	7.07	8.60	10.23	7.33	<b>7.07</b>
Independent fiduciary services	2.40	2.98	2.23	2.40	3.51	4.32	5.12	5.63	5.35	5.69	<b>6.19</b>
	7.85	7.05	6.33	6.91	8.57	10.05	12.19	14.23	15.58	13.02	<b>13.26</b>
Dividends <sup>2</sup> (pence)	6.80	6.90	6.90	6.90	7.55	9.05	10.50	12.00	12.20	12.20	<b>12.70</b>
NAV <sup>1</sup> <sup>2</sup> (pence) (after proposed final dividend)	252.6	222.9	170.5	201.9	228.1	284.0	328.2	339.6	219.2	284.0	<b>342.9</b>
Share price <sup>1</sup> <sup>2</sup> (pence)	239.6	233.5	192.5	221.75	232.5	288.75	349.0	354.5	223.5	284.5	<b>356.6</b>
Premium/(discount) <sup>1</sup> (%)	(5.1)	4.7	12.9	9.8	1.9	1.7	6.3	4.4	2.0	0.2	<b>4.0</b>
Market capitalisation <sup>1</sup> (£m)	279.4	272.7	225.3	260.0	273.2	339.7	410.8	417.4	263.8	335.9	<b>418.6</b>
Cost of running investment trust <sup>3</sup> (% of average portfolio value)	0.47	0.53	0.56	0.55	0.52	0.51	0.49	0.49	0.48	0.54	<b>0.43</b>

<sup>1</sup> At 31 December

<sup>2</sup> Pence per share as restated following a five for one share split in August 2002

<sup>3</sup> Cost of running investment trust in 2008 and 2009 excludes VAT refunds related to prior years

The information in respect of 2003-2010, is in accordance with International Financial Reporting Standards. The information in respect of 2000-2002 is in accordance with UK Generally Accepted Accounting Principles.

**Highlights**

	31 December 2010 pence	31 December 2009 pence
Share price	<b>356 60</b>	284 50
NAV per share after proposed final dividend	<b>342 92</b>	283 95
Revenue return per share		
– Investment trust	<b>7 07</b>	7 33
– Independent fiduciary services	<b>6 19</b>	5 69
Group revenue return per share	<b>13 26</b>	13 02
Capital return per share	<b>58 22</b>	62 77
Dividends per share	<b>12 70</b>	12 20

**Performance**

	2010 %	2009 %
Share price total return <sup>1</sup>	<b>30 5</b>	34 4
NAV total return <sup>1</sup>	<b>24.8</b>	37 8
FTSE All-Share Index total return	<b>14 5</b>	30 1

<sup>1</sup> Source AIC, including reinvestment of dividends

## 4 Long term performance

	5 years %	10 years %
NAV total return <sup>1</sup>	48.4	100.0
FTSE Actuaries All-Share Index total return <sup>1</sup>	28.4	43.2
Share price total return <sup>1</sup>	49.7	111.5
Change in retail price index <sup>1</sup>	17.1	31.8
Annual revenue earnings growth	5.7	5.4
Annual dividend growth	7.0	6.5
Annual RPI change	3.2	2.8

<sup>1</sup> Source: AIC

The performance data contained above has been compiled in accordance with AIC recommendations

Total returns assume the reinvestment of dividends

## 20 year performance

**GRAPHIC REMOVED**

**Douglas McDougall OBE**

*Chairman*

Chairman of The Independent Investment Trust plc, The European Investment Trust PLC and The Scottish Investment Trust plc and a director of The Monks Investment Trust, Pacific Horizon Investment Trust, Herald Investment Trust and Stramongate Assets 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**

*Managing director*

Appointed to the board in January 2002. Former chief operating officer of SVB Holdings PLC (now called Novae plc), a Lloyd's listed integrated vehicle, and former finance director of N M Rothschild & Sons Limited.

**Armel Cates**

*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 Fatburen Investment BV and of Charterhouse-in-Southwark Trustee Company.

A member of the remuneration, nomination and audit committees and a director of the L D C Trust Management Limited board.

**John Kay**

*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, Scottish Mortgage Investment Trust plc and Clear Capital, an equity research boutique.

He writes a weekly column for the Financial Times. Member of the audit, remuneration and nomination committees and chairman of L D Pension Plan Trustee Limited.

**Christopher Smith**

*Non-executive director*

Appointed to the board on 1 March 2009. Former Managing Director – Corporate Finance for JP Morgan Cazenove. Over 30 years experience in corporate finance and equity capital markets. He is a member of the Panel on Takeovers and Mergers, a non-executive director of CG Asset Management Limited and a director of Allchurches Trust Limited.

He is chairman of the audit committee, a member of the remuneration and nomination committees, chairman of L D C Trust Management Limited and chairman of Law Debenture Trust Company of New York Inc.

## Investment manager

**James Henderson**

Joined Henderson Global Investors in 1983 and has been an investment trust portfolio manager since 1990, managing Lowland Investment Company plc since then and Henderson Opportunities Trust plc since January 2006. 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.

## 6 Chairman's statement

### Performance

Our net asset value total return for the year to 31 December 2010 was 24.8%, compared to a total return of 14.5% for the FTSE Actuaries All-Share Index. Net revenue return per share was 13.26p, an increase of 1.8% over the previous year, as a result of a 3.5% fall in the investment trust and an 8.8% increase in independent fiduciary services.

### Dividend

The board is recommending a final dividend of 8.5p per ordinary share (2009: 8.0p), which together with the interim dividend of 4.2p (2009: 4.2p) gives a total dividend of 12.7p (2009: 12.2p).

The final dividend will be paid, subject to shareholder approval, on 20 April 2011 to holders on the register on the record date of 18 March 2011.

The Corporation's policy continues to be to seek growth in both capital and income. We attach considerable importance to the dividend, which we aim to increase over a period, if not every year, at a rate which is covered by earnings and which does not impair the flexibility of our investment policy. Our basis for reporting earnings is more conservative than that of many investment trusts, in that all our expenses, including interest costs, are charged fully to the revenue account.

### Investment trust

Equity markets were volatile in the first six months of the year, with little overall change, but the remainder of the year saw a steady improvement in values. Corporate profits have been increasing and balance sheets have been strengthening, giving rise to expectations of future dividend increases.

This improved corporate performance encouraged us to increase equity exposure, which was funded by the sale of part of our holding in short dated corporate bonds, which we had held as an alternative to cash. The performance of the portfolio has benefited from the relatively high exposure to industrial companies, which have seen expanding demand from emerging markets. For a discussion of the portfolio please see the investment manager's review on page 7.

The prospects for UK dividend growth are encouraging and the portfolio is well positioned to take advantage of continued growth in emerging markets from its bias towards industrial companies.

### Independent fiduciary services

New transactions and appointments continued to be below historic levels, but a combination of high activity from existing business and strict cost control led to an increase in profits. Future improvement in profits is dependent upon continued global growth and an increase in capital market transactions.

The creation of our board effectiveness services business demonstrates our intention to seek to grow both organically and by way of acquisition where suitable opportunities arise.

For a discussion of the independent fiduciary services business please see the managing director's report on page 14.

I should like to thank James Henderson for the good performance of the portfolio in 2010, extending an excellent long term record, and Caroline Banszky and her team in fiduciary services for managing to make progress in difficult conditions.

The annual general meeting will be held at the Brewers Hall, Aldermanbury Square, London EC2V 7HR at 11am on 12 April 2011, and I look forward to seeing as many as possible of you there.

**Douglas McDougall**



### Overview

During the course of 2010 the global stock market rally gained momentum, registering an impressive recovery from the market's nadir in March 2009. Encouraging global economic growth was the main driver behind the advance in equities and risk assets. Well-positioned companies experienced sales growth at a time when they had capacity to fill orders, leading to an increase in corporate profit margins. Consensus earnings forecasts generally lagged behind the actual growth achieved, meaning that the background for investors was positive, as a continual stream of upgrades ensued, with companies demonstrating impressive cash generation. As a consequence of the financial crisis, firms have chosen to focus on paying down their debt, with the result that corporate balance sheets are now generally very strong.

Law Debenture's portfolio benefited from the trend of improving company performances, with strength in the industrials sector the major factor behind the portfolio's outperformance during the year. Industrials, which are well-represented in the portfolio, were particularly boosted by the underlying economic expansion, as it is these firms that are providing goods and services demanded by rapidly expanding emerging economies. Such firms also benefit from operational gearing, and were in the forefront of profits growth.

Strong cash generation and robust balance sheets led to acceleration of dividend growth in the firms to which we are exposed, as company boards became more sanguine about their forecasts and outlooks. This pick-up in dividends is set to continue and underpins adopting a positive stance towards equity investment. We have employed a modest level of gearing to equity throughout the year, and our intention is to retain it because earnings growth is expected to continue to surprise positively.

Geographically, the best performing area for the portfolio was the US, as a result of the strong performance from industrial giants Cummins and Caterpillar, while the weakest geographical area was Continental Europe, as a result of the slower growth within some Mediterranean countries. The Pacific region, again, performed strongly. Law Debenture's holdings here are split between three different OEIC managers and a specialist investment trust. It was this latter holding, Scottish Oriental Smaller Company Trust, that advanced the most as smaller companies in the area outperformed and the discount narrowed. The medium and smaller companies within the UK portfolio also appreciated substantially.

### Portfolio activity

Underlying portfolio activity in buying and selling shares was low over the review period, with turnover of approximately 9% for the year. Trading activity in the portfolio is usually modest, but this was particularly the case over the year, as we resisted the temptation of reducing holdings in stocks where share prices had advanced, because prices looked set to recover yet further. It is important to remember how far some shares fell in 2008, when the actions and pronouncements of some investors were extreme. This overreaction in the markets led to some shares being sold down to completely unjustified levels – therefore the recovery was likely to be a strong one. The key question a shareholder in any company needs to ask is whether the firm's future operational performance justifies its current valuation and, if it does, to keep with the holding regardless of how much that share price has recovered. Many companies have improved substantially as investment propositions in recent years. This can be measured by the straight valuation matrix of earnings, dividend cover, and balance sheet strength.

That said, we are always alert to compelling new investment opportunities. For example, we added a holding in the US medical supplier Becton Dickinson, as the valuation was not reflective of the strength of its profit growth profile. We reduced our corporate bond holdings by half to finance the purchase of equities. Our holdings in the banking sector remain low as visibility is poor over their prospective profits. It is unclear how much capital they will require and whether they will be required to separate their retail and wholesale operations.

### Outlook

Looking ahead to the coming year, the global economic recovery should continue across the developed world. Given this favourable backdrop, top class manufacturing companies – wherever they are based geographically – look well-positioned to benefit from the improving conditions, as long as they remain focused and competitive in their undertakings. We are also hopeful that subdued wage pressure in the major economies will prevent a destabilising rise in inflation. Therefore, to conclude, the cocktail of good profits growth, dividend increases, relatively low valuations, and modest inflation would suggest a positive outlook for equity investment.

**James Henderson**  
Henderson Global Investors Limited

## 8 Top 20 equity holdings by value

Rank	Company	2010		2009	
		Value £000	% of portfolio	% of portfolio	Rank
1	Royal Dutch Shell	14,586	3.31	3.28	2
2	Senior	14,151	3.21	1.87	6
3	BP	13,501	3.06	3.54	1
4	HSBC	11,069	2.51	3.23	3
5	GKN	10,242	2.32	1.28	10
6	GlaxoSmithKline	9,920	2.25	2.83	4
7	British American Tobacco	8,622	1.95	1.89	5
8	Cummins (USA)	7,026	1.59	0.76	40
9	Vodafone	6,321	1.43	1.47	8
10	Weir Group	6,220	1.41	0.77	38
11	Morgan Crucible	6,204	1.41	1.07	19
12	Meggitt	5,785	1.31	1.10	16
13	Imperial Tobacco	5,412	1.23	1.18	12
14	Schlumberger (USA)	5,333	1.21	1.08	18
15	Hiscox	5,107	1.16	0.93	24
16	BHP Billiton	5,102	1.16	1.07	20
17	Tesco	5,100	1.16	1.37	9
18	Diageo	5,096	1.15	1.25	11
19	Amlin	4,858	1.10	1.15	14
20	Interserve	4,853	1.10	0.97	22
		35.03			

The top 20 equity holdings by value at 31 December 2009 accounted for 34% of the investment portfolio

### Other significant holdings by value

Rank	Company	2010		2009	
		Value £000	% of portfolio	% of portfolio	Rank
1	Henderson Asia Pacific Capital Growth*	12,798	2.90	2.77	1
2	Henderson Japan Capital Growth*	12,337	2.80	2.69	2
3	Baillie Gifford Pacific*	9,783	2.22	2.13	3
4	First State Asia Pacific*	8,610	1.95	1.81	4
5	Scottish Oriental Smaller Company Trust	6,130	1.39	1.09	7
6	National Grid 6 125% 15/04/14	5,814	1.32	1.52	5
		12.58			

\* Open ended investment companies

	Valuation 31 December 2009 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation £000	Valuation 31 December 2010 £000
United Kingdom	266,534	26,985	(125)	(26,897)	46,891	<b>313,388</b>
North America	18,397	3,360	(5)	~	8,498	<b>30,250</b>
Europe	43,117	5,917	(8)	(9,779)	2,203	<b>41,450</b>
Japan	15,890	–	–	–	3,038	<b>18,928</b>
Other Pacific	29,128	–	–	–	8,193	<b>37,321</b>
	<b>373,066</b>	<b>36,262</b>	<b>(138)</b>	<b>(36,676)</b>	<b>68,823</b>	<b>441,337</b>

#### Geographical distribution of portfolio 2010

**GRAPHIC REMOVED**

United Kingdom 71.0%

North America 6.8%

Europe 9.4%

Japan 4.3%

Other Pacific 8.5%

#### Geographical distribution of portfolio 2009

**GRAPHIC REMOVED**

United Kingdom 71.4%

North America 4.9%

Europe 11.6%

Japan 4.3%

Other Pacific 7.8%

## 10 Classification of investments

based on market values at 31 December 2010

	United Kingdom %	North America %	Europe %	Japan %	Other Pacific %
<b>Oil &amp; gas</b>					
Oil & gas producers	7 40	–	0 47	–	–
Oil equipment & services	0 63	1 94	0 28	–	–
	8 03	1 94	0 75	–	–
<b>Basic materials</b>					
Chemicals	0 73	–	0 18	0 38	–
Forestry & paper	0 70	–	–	–	–
Mining	1 16	–	–	–	–
	2 59	–	0 18	0 38	–
<b>Industrials</b>					
Construction & materials	0 83	–	0 39	–	–
Aerospace & defence	6 33	–	–	–	–
General industrials	1 26	–	0 23	–	–
Electronic & electrical equipment	1 97	1 02	0 18	–	–
Industrial engineering	3 04	2 13	0 23	–	–
Industrial transportation	0 84	–	0 61	–	–
Support services	2 53	–	1 15	–	–
	16 80	3 15	2 79	–	–
<b>Consumer goods</b>					
Automobiles & parts	2 32	–	–	0 60	–
Beverages	1 15	–	0 16	–	–
Food producers	1 80	–	0 81	–	–
Household goods	2 03	–	0 28	–	–
Leisure goods	0 04	–	–	–	–
Tobacco	3 18	–	0 26	–	–
	10 52	–	1 51	0 60	–
<b>Health care</b>					
Health care equipment & services	0 72	0 49	1 28	–	–
Pharmaceuticals & biotechnology	4 11	–	0 80	–	–
	4 83	0 49	2 08	–	–
<b>Consumer services</b>					
Food & drug retailers	1 16	–	–	–	–
General retailers	1 74	–	0 34	0 27	–
Media	2 84	0 39	0 14	0 24	–
Travel & leisure	2 33	0 23	–	–	–
	8 07	0 62	0 48	0 51	–
<b>Telecommunications</b>					
Fixed line telecommunications	0 79	–	–	–	–
Mobile telecommunications	1 97	–	–	–	–
	2 76	–	–	–	–
<b>Utilities</b>					
Electricity	1 40	–	0 19	–	–
Gas water & multiutilities	2 70	–	–	–	–
	4 10	–	0 19	–	–
<b>Financials</b>					
Banks	3 81	–	0 94	–	–
Nonlife insurance	2 46	0 65	–	–	–
Life insurance / assurance	1 90	–	0 08	–	–
Real estate investment & services	0 37	–	–	–	–
Real estate investment trusts	2 25	–	–	–	–
Financial services	1 58	–	0 25	–	–
Equity investment instruments	0 93	–	–	2 80	8 46
	13 30	0 65	1 27	2 80	8 46
<b>Technology</b>					
Software & computer services	–	–	0 15	–	–
	–	–	0 15	–	–
<b>Total 2010</b>	<b>71 00</b>	<b>6.85</b>	<b>9 40</b>	<b>4 29</b>	<b>8 46</b>
<b>Total 2009</b>	<b>71 44</b>	<b>4 94</b>	<b>11 57</b>	<b>4 25</b>	<b>7 80</b>

The above table excludes bank balances and short term deposits

Total 2010 £000	2010 %	Total 2009 £000	2009 %
34,712	7.87	30,681	8.23
12,554	2.85	7,765	2.08
47,266	10.72	38,446	10.31
5,690	1.29	3,878	1.04
3,081	0.70	2,010	0.54
5,102	1.16	3,990	1.07
13,873	3.15	9,878	2.65
5,376	1.22	5,207	1.40
27,905	6.33	17,878	4.79
6,642	1.49	7,007	1.90
13,932	3.17	9,366	2.51
23,850	5.40	17,333	4.65
6,361	1.45	4,253	1.14
16,192	3.68	11,069	2.97
100,258	22.74	72,113	19.36
12,943	2.92	8,044	2.16
5,865	1.31	5,336	1.43
11,526	2.61	10,151	2.71
10,176	2.31	11,723	3.14
187	0.04	327	0.09
15,193	3.44	16,846	4.51
55,890	12.63	52,427	14.04
10,975	2.49	8,301	2.22
21,716	4.91	21,012	5.63
32,691	7.40	29,313	7.85
5,100	1.16	5,840	1.56
10,365	2.35	10,502	2.82
15,867	3.61	14,481	3.89
11,330	2.56	5,807	1.55
42,662	9.68	36,630	9.82
3,491	0.79	3,167	0.85
8,764	1.97	7,970	2.14
12,255	2.76	11,137	2.99
7,027	1.59	6,897	1.85
11,914	2.70	9,036	2.41
18,941	4.29	15,933	4.26
20,919	4.75	23,409	6.28
13,723	3.11	10,602	2.83
8,754	1.98	8,773	2.35
1,650	0.37	1,733	0.46
9,938	2.25	13,030	3.49
8,084	1.83	7,596	2.05
53,764	12.19	42,046	11.26
116,832	26.48	107,189	28.72
669	0.15	-	-
669	0.15	-	-
441,337	100.00		
		373,066	100.00

## Portfolio by sector 2010

GRAPHIC REMOVED

Oil &amp; gas 10.7%

Basic materials 3.2%

Industrials 22.7%

Consumer goods 12.6%

Health care 7.4%

Consumer services 9.7%

Telecommunications 2.8%

Utilities 4.3%

Technology 0.1%

Financials 26.5%

## Portfolio by sector 2009

GRAPHIC REMOVED

Oil &amp; gas 10.3%

Basic materials 2.7%

Industrials 19.4%

Consumer goods 14.0%

Health care 7.8%

Consumer services 9.8%

Telecommunications 3.0%

Utilities 4.3%

Financials 28.7%

## 12 Portfolio valuation

as at 31 December 2010

The number of investments decreased from 143 at 31 December 2009 to 142 at 31 December 2010

	£000	%
<b>Oil &amp; gas</b>		
Oil & gas producers		
Royal Dutch Shell	14,586	3 31
BP	13,501	3 06
BG	4,536	1 03
Total (Fra)	2,089	0 47
	34,712	7 87
Oil equipment & services		
Schlumberger (USA)	5,333	1 21
John Wood	2,790	0 63
National Oilwell Varco (USA)	2,148	0 49
Saipem (Ita)	1,215	0 28
Diamond Offshore Drilling (USA)	1,068	0 24
	12,554	2 85
<b>Basic materials</b>		
Chemicals		
Croda	3,222	0 73
Asahi Kasei (Jap)	1,669	0 38
Brenntag (Ger)	799	0 18
	5,690	1 29
Forestry & paper		
Mondi	3,081	0 70
	3,081	0 70
Mining		
BHP Billiton	5,102	1 16
	5,102	1 16
<b>Industrials</b>		
Construction & materials		
Balfour Beatty	3,008	0 68
CRH (Ire)	1,708	0 39
Marshalls	660	0 15
	5,376	1 22
Aerospace & defence		
Senior	14,151	3 21
Meggitt	5,785	1 31
Rolls Royce	4,361	0 99
BAE Systems	3,300	0 75
Hampson Industries	308	0 07
	27,905	6 33
General industrials		
Smith (DS)	3,741	0 85
Smiths	1,868	0 41
Siemens (Ger)	1,033	0 23
	6,642	1 49
Electronic & electrical equipment		
Morgan Crucible	6,204	1 41
Applied Materials (USA)	4,480	1 02
TT Electronics	2,465	0 56
Legrand (Fra)	783	0 18
	13,932	3 17
Industrial engineering		
Cummins (USA)	7,026	1 59
Weir Group	6,220	1 41
Hill & Smith	4,780	1 08
Caterpillar (USA)	2,393	0 54
Renold	1,666	0 38
ABB (Swi)	999	0 23
Severfield-Rowen	766	0 17
	23,850	5 40

	£000	%
Industrial transportation		
Kuehne & Nagel (Swi)	1,907	0 43
BBA Aviation	1,662	0 38
Goldenport	849	0 19
Wincanton	819	0 19
AP Moller-Maersk (Den)	772	0 18
Autologic	352	0 08
	6,361	1 45
Support services		
Interserve	4,853	1 10
Carillion	4,798	1 09
SGS (Swi)	1,667	0 38
Deutsche Post (Ger)	1,303	0 30
Johnson Service	1,241	0 28
Sodexo (Fra)	1,237	0 28
Adecco (Swi)	839	0 19
Augean	254	0 06
	16,192	3 68
<b>Consumer goods</b>		
Automobiles & parts		
GKN	10,242	2 32
Toyota Motor (Jap)	1,775	0 40
Bridgestone (Jap)	926	0 20
	12,943	2 92
Beverages		
Diageo	5,096	1 15
Pernod-Ricard (Fra)	769	0 16
	5,865	1 31
Food producers		
Nestle (Swi)	3,553	0 81
Associated British Foods	3,543	0 80
Unilever	3,435	0 78
Dairy Crest	844	0 19
Uniq	104	0 02
Premier Foods	47	0 01
	11,526	2 61
Household goods		
Bellway	3,320	0 75
Redrow	2,996	0 68
Reckitt Benckiser	2,644	0 60
Essilor (Fra)	1,216	0 28
	10,176	2 31
Leisure goods		
Harvard International	187	0 04
	187	0 04
Tobacco		
British American Tobacco	8,622	1 95
Imperial Tobacco	5,412	1 23
Swedish Match (Swe)	1,159	0 26
	15,193	3 44
<b>Health care</b>		
Health care equipment & services		
Fresenius (Ger)	3,821	0 87
Smith & Nephew	3,180	0 72
Becton Dickinson (USA)	2,159	0 49
Fresenius Medical Care (Ger)	1,815	0 41
	10,975	2 49

	£000	%
<b>Pharmaceuticals &amp; biotechnology</b>		
GlaxoSmithKline	9,920	2 25
AstraZeneca	4,382	0 99
Shire	3,858	0 87
Novartis (Swi)	2,617	0 59
Roche (Swi)	939	0 21
	21,716	4 91
<b>Consumer services</b>		
<b>Food &amp; drug retailers</b>		
Tesco	5,100	1 16
	5,100	1 16
<b>General retailers</b>		
Dunelm	4,595	1 04
Marks & Spencer	1,845	0 42
Inditex (Spa)	1,507	0 34
Lawson (Jap)	1,172	0 27
Findel	625	0 14
Topps Tiles	621	0 14
	10,365	2 35
<b>Media</b>		
Reed Elsevier	4,050	0 92
Pearson	2,772	0 63
WPP	2,763	0 63
Daily Mail & General Trust	2,583	0 59
Thomson Reuters (Can)	1,719	0 39
Toppan Printing (Jap)	1,049	0 24
Kabel Deutschland (Ger)	597	0 14
Yell	181	0 04
Johnston Press	153	0 03
	15,867	3 61
<b>Travel &amp; leisure</b>		
Carnival	3,098	0 70
Greene King	2,779	0 63
Marstons	2,347	0 53
International Consolidated Airlines	1,567	0 36
Carnival (USA)	1,067	0 23
Thomas Cook	472	0 11
	11,330	2 56
<b>Telecommunications</b>		
<b>Fixed line telecommunications</b>		
BT	2,350	0 53
Cable & Wireless Worldwide	656	0 15
Cable & Wireless Communications	485	0 11
	3,491	0 79
<b>Mobile telecommunications</b>		
Vodafone	6,321	1 43
Inmarsat	2,443	0 54
	8,764	1 97
<b>Utilities</b>		
<b>Electricity</b>		
Scottish & Southern Energy	3,675	0 83
Scottish & Southern Energy 5 75% 05/02/14	2,530	0 57
Iberdrola (Spa)	822	0 19
	7,027	1 59

	£000	%
<b>Gas water &amp; multiutilities</b>		
National Grid 6 125% 15/04/14	5,814	1 32
National Grid	3,097	0 70
Severn Trent	3,003	0 68
	11,914	2 70
<b>Financials</b>		
<b>Banks</b>		
HSBC	11,069	2 51
Standard Chartered	3,871	0 88
Banco Santander (Spa)	2,335	0 53
Barclays	1,831	0 42
BNP Paribas (Fra)	1,064	0 24
UBS (Swi)	749	0 17
	20,919	4 75
<b>Nonlife insurance</b>		
Hiscox	5,107	1 16
Amlin	4,858	1 10
Chubb (USA)	2,857	0 65
Hardy Underwriting Bermuda	503	0 11
Chaucer	398	0 09
	13,723	3 11
<b>Life insurance/assurance</b>		
Aviva	3,085	0 70
Prudential	2,959	0 67
Chesnara	2,355	0 53
Irish Life & Permanent (Ire)	355	0 08
	8,754	1 98
<b>Real estate investments &amp; services</b>		
St Modwen Properties	1,650	0 37
	1,650	0 37
<b>Real estate investment trusts</b>		
Land Securities	2,999	0 68
Great Portland Estate	2,774	0 63
Mucklow (A&J) Group	2,314	0 52
Segro	1,851	0 42
	9,938	2 25
<b>Financial services</b>		
International Personal Finance	2,873	0 65
Provident Financial	2,387	0 54
Intermediate Capital Group	1,490	0 34
Deutsche Borse (Ger)	1,069	0 24
	7,819	1 77
<b>Equity investment instruments</b>		
Henderson Asia Pacific Capital Growth	12,798	2 90
Henderson Japan Capital Growth	12,337	2 80
Baillie Gifford Pacific	9,783	2 22
First State Asia Pacific	8,610	1 95
Scottish Oriental Smaller Company Trust	6,130	1 39
Herald Investment Trust	4,106	0 93
	53,764	12 19
<b>Technology</b>		
<b>Software &amp; computer services</b>		
Amadeus IT (Spa)	669	0 15
	669	0 15

Those shown in italics are new holdings in the six months since 30 June 2010

## 14 Management review – independent fiduciary services

### Results

Independent fiduciary services profit before tax increased by 2.2% from £8.76 million to £8.95 million. The prior year profit benefited from a one-off gain of £694,000 as a result of a change made to the pension scheme. Revenue return per share increased by 8.8% from 5.69p to 6.19p. The effective tax rate fell from 23.8% to 18.8% owing to changes in the taxation of overseas income.

### Independent fiduciary services businesses

Law Debenture is a leading provider of independent third party fiduciary services, including corporate and pension trusts, service of process, treasury management and structured finance administration, corporate services, board effectiveness and whistle blowing. The businesses are monitored and overseen by a board comprising the heads of the relevant business areas, chaired by a non-executive independent director, currently Christopher Smith.

### Review of 2010

The independent fiduciary businesses again performed well. Although the markets where we operate are yet to return to pre-recession levels, they were livelier than in 2009, particularly for service of process appointments. We maintained market share across all of the businesses and continued with our efforts to augment revenues by diversifying into new areas where successful. Activity levels in pre-existing transactions remained high, allowing us to charge additional fees.

Towards the end of the year, we added a new business line – board effectiveness services. This enables us to offer boards of all kinds an independent, external evaluation service in accordance with the revised UK Corporate Governance Code, as well as general board/director development services and business intelligence on corporate governance. Revenues will begin to flow from this new business during 2011.

Some notable highlights of the year are set out below.

### Corporate trusts

Among the new roles we secured were trustee of debt programmes of two train leasing companies Porterbrook and Eversholt, a major security agent role for the French company Technicolor, and appointments for many new clients including Electra Private Equity, Hyde Housing, Northern Gas Networks, and TUI Travel. We were also appointed trustee by ETF Securities on its innovative foreign currency programme and on a base metals programme, believed to be the first of its kind in the London market.

We secured a significant role as trustee to enable British Airways to preserve its UK nationality for the purposes of certain international traffic rights, following its merger with Iberia. Acting through a special purpose subsidiary, we hold British Airways B shares – which carry minimal economic rights – representing 50.1% of the total number of issued shares in BA, exercising the votes attaching to the shares in accordance with the terms of the trust.

There has continued to be a high level of post-issuance work on existing trusts. Terms for settlement of the long running disputes over the Polish company, Elektrim, have finally been agreed.

### Pension trusts

The pension scheme trusteeship service continued to grow and in consequence we added several high-calibre individuals to our team. Pension schemes face many challenges and our strong and experienced team are well placed to help schemes respond to those challenges. Recognising that, clients are increasingly asking us to be the chair of their trustee boards. Now firmly cemented in the pensions industry calendar, the 2010 annual debate was the best attended to date and we look forward to another lively evening in May 2011 when the subject will be “This house believes that pensions would be better off without politicians”.



### **Corporate services**

Our long established and high regarded service of process business saw a welcome upturn in new appointments as the number of corporate transactions overseas increased in line with the global recovery

The corporate services business had a good year. Despite continuing low activity levels in the structured finance markets, we were appointed to new securitisations originated by Eversholt Rail and Northern Rock. We also picked up business from other markets, including an appointment as company secretary of NBNK Investments, a company seeking to become, through acquisition, a new bank for retail and smaller company customers.

### **Treasury and asset backed solutions**

The integration of our treasury management and structured finance administration businesses has enabled these businesses to grow and develop. Our cash escrow business remains very active and we are well placed to capitalise on third party servicing opportunities as market activity picks up.

### **Safecall**

Our external whistle blowing service increased its client base by 25%. Notable appointments included Tullow Oil, Atkins, Michelin and EDF Energy. The commercial and regulatory benefits of independent confidential reporting have become even more pronounced with the advent of The Bribery Act 2010. The need for firms to have in place adequate procedures to comply with the Act has led to an increased number of enquiries for our service.

### **Overseas**

#### *United States*

The US business generated positive results across all of its sectors of operation. Notable new trust appointments included Ambac Financial, Las Vegas Monorail and Bank United Trustee Administration and collateral agent appointments and escrow and paying agent services also performed well. The US corporate services businesses, including Delaware Corporate Services, had an excellent year, recording their highest profits yet.

#### *Hong Kong*

We had a successful year in the Far East, reflecting the continuing resurgence in economic activity in the region. Service of process appointments returned to pre-credit crisis levels, new escrow appointments increased significantly and the employee share trust business flourished. We successfully launched exclusive co-operation arrangements with Jiangsu International Trust Company Limited in Shanghai, enabling us to provide trustee and escrow services for foreign investors in China.

#### *Channel Islands*

While income rose on new pension trustee and short term escrow appointments, provisions for doubtful debts were higher than usual, resulting in a slight decline in net profits.

### **Summary and outlook**

Nearly all of our independent fiduciary businesses achieved or bettered their revenue targets. During a year when market conditions improved slightly, but by no means reaching pre-recession levels, this is a creditable achievement. In 2011, we expect activity levels to be influenced less by work arising from pre-existing transactions and more by new appointments. This will be reliant, however, upon the continued growth of the global economy and some rejuvenation of the banking sector, from which a good proportion of our business emanates, but which remains more sluggish than we would prefer.

**Caroline Banszky**

## 16 Corporation advisers and information

### **Registered office**

Fifth Floor  
100 Wood Street  
London EC2V 7EX  
Telephone 020 7606 5451  
Facsimile 020 7606 0643  
(Registered in England – No 30397)

### **Investment portfolio manager**

Henderson Global Investors Limited  
201 Bishopsgate  
London EC2M 3AE

### **Auditors**

BDO LLP  
55 Baker Street  
London W1U 7EU

### **Global custodians**

The Bank of New York Mellon  
160 Queen Victoria Street  
London EC4V 4LA

### **Registrar and transfer office**

Computershare Investor Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH  
Telephone 0870 707 1129

### **Bankers**

The Royal Bank of Scotland Group

### **Stockbrokers**

JPMorgan Cazenove Limited  
10 Aldermanbury  
London EC2V 7RF

A member of  
**aic**  
The Association of  
Investment Companies

The directors present their annual report and the audited financial statements for the year ended 31 December 2010. The Corporation retains its status as an investment trust and has been treated by HM Revenue & Customs ('HMRC') and approved as such for the year ended 31 December 2009, the latest year for which financial statements have been submitted. Such approval for the year ended 2009 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 Sections 1158-1159 approval under the Corporation Tax Act 2010. 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 833 of the Companies Act 2006 and operates as such. The directors consider that the group operates as a going concern.

#### Business review

The group divides into two distinct complementary areas of business. The Corporation is a global investment trust, its portfolio of investments being managed by Henderson Global Investors Limited ('Henderson'). Independent fiduciary services activities are corporate trusts, treasury management, pension trusts, corporate services (including agent for service of process), structured finance administration and whistle blowing services. During the year, a new business was added – Law Debenture Governance Services Limited will provide board evaluation services to client boards, in accordance with the UK Corporate Governance Code. The Corporation's services are provided by wholly owned subsidiaries with offices in London, Sunderland, New York, Delaware, Hong Kong, and the Channel Islands.

The Corporation's objective for the investment trust is to achieve long term capital growth in real terms and steadily increasing income. The directors consider a number of performance measures to assess the group's success in achieving its objectives. The key performance indicators used to measure the progress and

performance of the group are net asset value total return per share, the discount or premium in share price to net asset value, and the cost of running the portfolio as a percentage of its value. The net asset value total return combines the total return on the portfolio and the earnings of the independent fiduciary service business.

The net asset value performance and other performance factors affecting the group are included in the chairman's statement and the premium or discount to net asset value and cost of running the portfolio are given within the 10 year record.

The outlook for the investment portfolio is described in the investment manager's report and the outlook for the independent fiduciary services business is included in its management review.

Law Debenture considers that none of its trading activities has a negative environmental impact beyond the consumption of energy to service its offices.

The group's employees are provided with a modern, comfortable working environment which complies with all relevant safety regulations. Employees receive a range of benefits designed to promote good health including health insurance, medicals, etc. Independent confidential helpline facilities are provided to enable employees to deal with issues of concern to them, whether work related or domestic. As a result of these measures, and senior management's open style, staff turnover is extremely low (normally less than 10% per annum).

The group does not support social and community initiatives, its offices being based in non-residential financial districts.

The board is required to give information about persons with whom Law Debenture has contractual or other arrangements that are essential to the business of the group. In the view of the board, the only contract that is essential is that in place with Henderson, details of which are given elsewhere in the directors' report.

## 18 Directors' report

continued

### Investment policy

The Corporation's investment policy is as follows

The Corporation carries on its business as a global growth investment trust. Its objective is set out in the business review. 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.

To achieve this, investments are selected on the basis of what appears most attractive in the conditions of the time. This approach means that there is no obligation to hold shares in any particular type of company, industry or geographical location. The independent fiduciary services businesses do not form part of the investment portfolio and are outwith this policy.

The Corporation's portfolio will typically contain between 70 and 150 listed investments. The portfolio is widely diversified both by industrial sector and geographic location of investments in order to spread investment risk.

Whilst performance is measured against local and UK indices, the composition of these indices does not influence the construction of the portfolio. As a consequence, it is expected that the Corporation's investment portfolio and performance will deviate from the comparator indices.

Because the Corporation's assets are invested internationally and without regard to the composition of indices, there are no restrictions on maximum or minimum stakes in particular regions or industry sectors. However, such stakes are monitored in detail by the board at each board meeting in order to ensure that sufficient diversification is maintained.

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. The policy on gearing is to assume only that level of gearing which balances risk with the objective of increasing the return to shareholders. In pursuit of its investment objective, investments may be held in, inter alia, equity shares, fixed interest securities, interests in limited liability partnerships, cash and liquid assets. Derivatives may be used but only with the prior authorisation of the board. Investment in such instruments for trading purposes is proscribed.

It is permissible to hedge against currency movements on both capital and income account, subject again to prior authorisation of the board. Stock lending, trading in suspended shares and short positions are not permitted.

The Corporation's investment activities are subject to the following limitations and restrictions:

- No investment may be made which raises the aggregate value of the largest 20 holdings, excluding investments in OEICs and in Scottish Oriental Smaller Company Trust, to more than 40% of the Corporation's portfolio, including cash. The value of a new acquisition in any one company may not exceed 5% of total portfolio value (including cash) at the time the investment is made, further additions shall not cause a single holding to exceed 5%, and board approval must be sought to retain a holding, should its value increase above the 5% limit.
- The Corporation applies a ceiling on effective gearing of 150%. While effective gearing will be employed in a typical range of 90% to 120%, the board retains the ability to reduce equity exposure to below 90% if deemed appropriate.
- The Corporation may not make investments in respect of which there is unlimited liability.
- Board approval must be sought for any proposed direct investments in certain jurisdictions.
- The Corporation has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

### Investment policy – implementation

During the year, the assets of the Corporation were invested in accordance with the investment policy.

A full list of holdings is disclosed on pages 12 and 13 and detailed analyses of the spread of investments by geographic region and industry sector are shown on pages 9 to 11. NAV relative performance against the FTSE All-Share Index is shown on page 3.

The top 20 equity holdings (excluding collective investment companies) comprise 35% of the total portfolio (2009: 34%).

The extent to which the Corporation's objective has been achieved, and how the investment policy was implemented, are described in the chairman's statement on page 6 and the investment manager's review on page 7

#### Principal risks and uncertainties

The principal risks of the Corporation relate to its investment activities and include market price risk, foreign currency risk, liquidity risk, interest rate risk, and credit risk. These are explained in note 19 to the accounts.

The principal risks of the independent fiduciary services business arise during the course of defaults, potential defaults and restructurings where we have been appointed to provide services. To mitigate these risks we work closely with our legal advisers and, where appropriate, financial advisers, both in the set up phase to ensure that we have as many protections as practicable, and at all other stages whether or not there is a danger of default.

#### Revenue, dividends and reserves

The revenue return attributable to shareholders for the year ended 31 December 2010 was £15,561,000. The directors recommend a final dividend of 8.5p per share, which together with the interim dividend of 4.2p paid in September 2010, will produce a total of 12.7p (2009 12.2p). The final dividend will be paid on 20 April 2011 to holders on the register on the record date of 18 March 2011. After deduction of the interim and final dividends of £14,909,000 (2009 £14,311,000), consolidated revenue reserves increased by £652,000 (2009 increase of £946,000).

#### Directors

All the directors on page 5 held office throughout the year.

All directors are required to stand for re-election every year. The list of candidates, which the board supports, is set out in the notice of annual general meeting, along with a statement in each case of why the candidate is supported.

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	2010	2009
C J Banszky	207,959	144,351
A C Cates	36,730	35,774
J A Kay	15,000	15,000
D C P McDougall	410,000	410,000
C Smith	55,000	40,000

Caroline Banszky received 1,993 shares on 25 January 2011 under the Corporation's deferred bonus scheme. There have been no other changes in directors' interests since 31 December 2010. No director has a beneficial interest in the shares of any subsidiary company.

The beneficial interest of James Henderson at 31 December 2010 was 50,000 (2009 50,000).

#### Directors' conflicts of interests

The directors are under statutory duty to avoid conflicts of interest. The board has in place appropriate procedures to deal with conflicts and potential conflicts, including an annual review, and those procedures are operating effectively. Each director has declared all matters that might give rise to a potential conflict of interest and these have been considered and (where necessary) approved by the board.

#### Regulatory compliance

The Corporation is subject to continuing obligations applicable to premium listed companies, overseen by the UK Listing Authority ('UKLA'), which is a division of the Financial Services Authority. One company in the group, The Law Debenture Trust Corporation plc, is regulated in the conduct of a limited range of authorised business activities. The directors receive periodic reports from the compliance officer about its conduct.

## 20 Directors' report

continued

### **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 into 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. Further, if it is deemed necessary or desirable, the Corporation would consider acting collectively with other institutional investors to try and achieve a particular goal

Henderson, 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

A conflict of interest could potentially arise from the Corporation's investments in products operated by its investment manager, Henderson. The board is mindful of this and manages the potential conflict by careful monitoring of the performance of any such funds. To the extent necessary in these cases, the Corporation would not hesitate to exercise votes against resolutions where it felt that shareholders' interests warranted such a step

The Corporation does not believe that conflicts can arise between its duties as an institutional shareholder and the independent fiduciary services work undertaken by the Corporation's subsidiaries. The investment manager has complete discretion as to portfolio decisions and as a matter of policy, has no access to 'non public' knowledge about any of the activities of the independent fiduciary services businesses

The Corporation has complied with the requirements of the Stewardship Code, introduced during the year, and its statement of compliance can be viewed at [www.lawdeb.com/investment-trust/investor-information/corporate-governance](http://www.lawdeb.com/investment-trust/investor-information/corporate-governance)

### **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

Shares may be issued in accordance with the articles of association – see AGM resolution 11

### **Substantial shareholdings and share information**

As at 28 February 2011, there were no shareholders that had notified the Corporation of an interest in 3% or more of the issued share capital. Share information as required by Section 992 of the Companies Act 2006 appears at page 68. Unless expressly stated the Corporation has no disclosure to make under that section

### 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. Shareholders wishing to receive reports and other communications electronically may do so by writing to the Corporation. In addition to the periodic regulatory reports that are published via the stock exchange, the Corporation publishes a monthly factsheet about the investment portfolio performance and prospects on its website.

### 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 29. 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.

Options outstanding under the SAYE schemes at 31 December 2010 were

Date of grant	Number of option holders	Shares under option	Exercise price
9 August 2006	8	12,939	283.70p
11 June 2007	4	2,995	349.76p
22 May 2008	14	51,268	314.24p
27 May 2009	37	185,112	211.50p
25 May 2010	12	13,818	314.88p

From 1993 to 2004, the Corporation operated Executive Share Option Schemes, which enabled 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 was contingent upon targets for the independent fiduciary

services business being achieved. Following a board decision in 2005 to discontinue the scheme and replace it with a Deferred Share Bonus Plan, no further options have been granted and total options outstanding at 31 December 2010 were as follows

Date of grant	Number of option holders	Shares under option	Exercise price
28 March 2003	2	12,237	174.4p
2 March 2004	5	24,213	228.2p

### Investment management

Henderson is responsible for the management of the investment portfolio. Henderson is fully aware of the Corporation's investment policy and provides a cost competitive service. Consequently the directors believe that the continuing appointment of Henderson 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 £965,000 (2009: £751,000) 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, it has been notified that funds managed by members of the HHG Group held 158,816 shares in the Corporation at 31 December 2010.

### Charitable donations

During the year the Corporation made charitable donations of £1,285 (2009: £867).

### 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.

## 22 Directors' report

continued

### **Statement of directors' responsibilities in relation to the financial statements**

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Acts

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation. The directors have chosen to prepare financial statements for the Corporation in accordance with IFRSs.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Corporation's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to

- consistently select and apply appropriate accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

### **Statement of information given to auditors**

The directors have confirmed that so far as they are aware, there is no relevant audit information of which the Corporation's auditors are unaware, and that they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Corporation's auditors are aware of that information.

### **Directors' responsibility statement pursuant to DTR4**

The directors confirm to the best of their knowledge

The group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit or loss of the group.

The annual report includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that they face.

### **Auditors**

A resolution to re-appoint BDO 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 2011

Registered in England – No. 30397





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 '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. This report is in respect of that version of the Code published in June 2008. The updated UK Corporate Governance Code, published in 2010, applies to reporting periods beginning on or after 29 June 2010 and the Corporation will be taking any steps necessary to ensure compliance with the new Code during the current year. A copy of the Code may be obtained by visiting [www.frc.org.uk](http://www.frc.org.uk). The Corporation was a constituent of the FTSE 250 during the period of the review, so all of the provisions of the Code apply to it. However, the Code recognises that investment companies such as Law Debenture may have board structures which might affect the relevance of particular provisions of the Code. Where Law Debenture has departed from any provisions of the Code, this is explained below. This corporate governance statement is intended to form a part of the directors' report.

#### **The board – role, modus operandi and appraisal**

The board includes a majority of non-executive directors. The names of the directors, all of whom 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](http://www.lawdeb.com) under investment trust/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, a vote will be taken and the views of a dissenting director recorded in the minutes.

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 was also a strategy day during the year attended only by the directors.

	Board	Remuneration	Audit	Nominations
Number of meetings in the year	<b>8*</b>	<b>3</b>	<b>3</b>	<b>1</b>
Meetings attended by				
C J Banszky	8	—	—	—
A C Cates	6	2	2	1
J A Kay	6	3	2	1
D C P McDougall	7	3	3	1
C Smith	7	3	3	1

\*One of these was held at short notice to take routine decisions.

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 review being discussed with the chairman by the senior independent director.

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.

## 24 Corporate governance

continued

### **The board – independence**

At least half of the board, excluding the Chairman, must be independent non-executive directors. The board has concluded that as at the date of this report, excluding the chairman, three of the four other directors are independent non-executives. In judging independence, the board takes into account whether or not a director is independent of management and any material 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 in the view of the board, notwithstanding the fact that he has served as a director for more than nine years and that he is not taken into account in assessing the independence of the board as a whole. Assessment of independence should be about character and conduct, not on any arbitrary time limit.

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 has been a director for more than nine years since his first election. The board considers that he remains independent and has classified him as such because of his independent qualities of character and judgement.

Professor Kay was independent at appointment in September 2004 and remains so, having had no previous connections with the Corporation or any of its subsidiaries.

Mr Smith was independent at appointment in March 2009 and remains so.

### **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 annual re-election, subject to continued satisfactory performance, which is assessed as described above. There is no maximum number of terms that a director may serve.

### **Directors' remuneration**

Details of the directors' remuneration appear in the remuneration report on page 32.

### **Board committees**

The board has established a nominations committee, an audit committee and a remuneration committee, to which it has delegated certain responsibilities. Each committee has terms of reference, which are published on the Corporation's website ([www.lawdeb.com/investment-trust/investor-information/corporate-governance](http://www.lawdeb.com/investment-trust/investor-information/corporate-governance)). Membership of the Committees is kept under review, taking account of the Code's acknowledgement of the position of investment trusts. The board is deliberately kept small in the best interests of shareholders. It is the expertise of directors that counts, not the number of them. The Corporation is not apologetic for the minor areas of non-compliance reported in the paragraphs below.

A majority of members of board committees are independent non-executive directors as assessed by the board. The Code says that the chairman should not be a member of the audit committee. The Corporation's board has concluded that given the range and complexity of issues considered by the committee and the Chairman's particular expertise in the financial management of investment trusts, it is appropriate to have four members including the chairman. Non-compliance with this part of the Code is in the shareholders' best interests.

The Code provides that the chairman may be a member of the remuneration committee but that he/she should not be its chairman. The Corporation's board has concluded that it is appropriate, given the size of the board, for the chairman to be on the remuneration committee and, given his experience and knowledge, that he is best placed of the four committee members to chair it. Non-compliance with this part of the Code is, again, in the shareholders' best interests.

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 23.

#### **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, and
- Ensuring that the board and its committees are constituted to comply so far as practicable with the Code.

##### *Members*

D C P McDougall (chairman)  
A C Cates  
J A Kay  
C Smith

#### **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 and making recommendations on the appointment of new auditors,

- Monitoring the statutory audit,
- 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*

C Smith (chairman)  
D C P McDougall  
A C Cates  
J A Kay

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 in the light, as relevant, of corporate performance against a range of measures,
- Development of total remuneration packages, taking account of factors set out in the Code, 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*

D C P McDougall (chairman)  
A C Cates  
J A Kay  
C Smith

The board does not operate a Management Engagement Committee. The duties of such a committee are undertaken directly by the board.

## 26 Corporate governance

continued

### Accountability and audit

The statement of directors' responsibilities in relation to the financial statements appears on page 22 of the annual report and accounts. The independent auditors' report appears on pages 34 and 35. The directors confirm that the Corporation 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 financial position and prospects of the Corporation and the group. 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 3 on page 45. 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 following paragraphs describe the framework of internal controls in place to ensure that the Corporation complies with the Financial Reporting Council's guidance ('the Turnbull guidance') which forms a part of the Code, and with the obligations of the UKLA's Disclosure and Transparency Rules which require a description of the main features of the internal control and risk management systems in relation to the financial reporting process. This section should be read in conjunction with the business review, from which shareholders will better understand the risks that our internal controls are in place to manage.

The board monitors the effectiveness of internal controls on a continuous basis and 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,
- Periodic reports to the board by the compliance officer about legal and regulatory changes, and the steps that the board must take to comply, 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.

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:

- 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,

- Review of internal audit reports by the appropriate operating company board and the audit committee,
- 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 discussions 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
- Receipt of frequent and detailed reports about the independent fiduciary services businesses, including the 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 2010 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. In addition, the executive staff have access to an external whistle blowing service. 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 Code is described separately within the directors' report

#### **Information about share capital**

The information that the Corporation is required to disclose about its share capital can be found in the directors' report (significant holders) and AGM notice (total voting rights). There are no other disclosures that need to be made about share capital

#### **Annual general meeting**

Details of the AGM for 2011 are set out at pages 65 to 68

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 votes withheld is disclosed to the meeting. This information is published immediately after the AGM on the Corporation's website. The notice of the AGM and related papers are sent to shareholders at least 21 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 2010 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

Dear Shareholder

On behalf of the board I submit the remuneration report for The Law Debenture Corporation p l c for 2010. 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 legislative requirements 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**

*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 25) apart from the Chairman have been assessed by the board as independent, non-executive directors. Each of these served throughout the year to 31 December 2010.

The committee met three times during the year. The managing director attended all 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. No other external advisers were engaged during the year.

To the extent required by statute, disclosures in this remuneration report have been audited – the independent auditors' report appears on pages 34 and 35.

### **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 independent fiduciary services businesses, discretionary bonus based upon independent fiduciary services business performance and the attainment of personal targets, a deferred bonus scheme for certain senior executives, designed to enhance retention of people key to the strategic growth of the independent fiduciary services business, pensions provision (partly in a contributory, funded, HMRC approved, final salary occupational pension scheme and partly in a defined contribution 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 8 and 10, but do not receive any other benefits.

The sole executive director during the period of this report was Mrs Banszky (managing director). Her overall package is reviewed every year, measured against factors including her own performance, that of the independent fiduciary services businesses and a comparison with the pay and conditions of group employees. This last objective is achieved by an annual review of data, produced by an external benchmarking consultant, which describes the pay and conditions of all staff, where necessary making

recommendations about the alignments of the executive director's remuneration package relative to performance, to the pay and conditions of employees generally and to market benchmarks

The policy applied in respect of each component of the remuneration package 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 10 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 6 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 10. Non-cash benefits include life insurance cover.

### **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 2011 in respect of performance of the independent fiduciary services businesses in 2010. 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 independent fiduciary services 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 2011, the general bonus scheme payment will be 8.0% 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 2011. Participants are entitled to place all or part of their general bonus scheme payment into a HMRC approved Share Incentive Plan.

### **3 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 group, the performance of the individual and the performance of the individual's department. The board believes it is inappropriate to publish any individual's performance conditions as these relate to the success of the independent fiduciary services business, which does not necessarily lead itself to quantitative tests and such publication may compromise the commercial competitiveness of the business. There is no contractual entitlement that says an incentive payment must be paid in any given year. There is a high element of deferment of bonus awards (see below). 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 2011 to Mrs Banský in respect of 2010 will be £174,000 (2009: £130,500). Up to the allowable limit, her bonus in respect of 2010 and payable in 2011 will be eligible to be placed in the Corporation's Share Incentive Plan.

The Corporation's bonus arrangements are as follows. Eligible executives can receive a total bonus dependent on performance as measured by the remuneration committee, which except in exceptional circumstances is unlikely to exceed 75% of salary. The total bonus includes the general bonus scheme (but not for the managing director who is not entitled to participate), the senior executive discretionary bonus scheme and any awards made under the Deferred Share Bonus Plan. The purpose of the Deferred Share Bonus Plan, under which shares awarded as bonus do not vest for three years, is to incentivise and retain staff deemed key to the future of the business. Deferred shares will make up at least one-third of the total bonus receivable by the participant.

## 30 Remuneration report

continued

No executive has a contractual entitlement to a bonus or to a Deferred Share Bonus Plan award, and the committee is not obliged to make an award to any individual in any 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. Dividend rights and voting rights on shares held by the trustee pending release to relevant executives are waived. The committee made awards of deferred bonus shares to the executive director (details of which are at paragraph 14) and 42 key members of the executive on 25 February 2010. Subject to eligibility, the shares will be released to award holders on 25 February 2013.

The remuneration committee has agreed an award of shares to the value of £87,000 under the plan to Mrs Banszky in respect of 2010, which will be purchased in March 2011 and will be released in March 2014.

Non-executive directors are not entitled to be participants.

### **4 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 13.

The Scheme is approved by HMRC 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 HMRC. 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 participated in the 2009 invitation to the maximum extent possible and was therefore ineligible to participate in the 2010 offering.

### **5 Executive share options (discontinued in 2005)**

A summary of executive share options granted in previous years to the executive director is set out at paragraph 12. Details of an exercise of options by the executive director during 2010 appear at paragraph 12, following which she has no options outstanding.

### **6 Pensions provision**

Mrs Banszky was a member of the group's funded contributory, HMRC approved, final salary occupational scheme until 31 March 2006. Details of her membership of the scheme are contained in the table at paragraph 11. Pursuant to her service contract, since leaving the scheme the managing director has received 20% of base salary as compensation. This amount is paid monthly in arrears accruing from day to day after the deduction of income tax and national insurance.

From 1 April 2009, all future pension benefits accrue at 1/80ths (previously 1/60ths for some eligible employees) with a salary cap linked to increases in RPI, £41,840 from 1 January 2011 (2010: £40,000), for accrual purposes.

Employees earning more than the cap receive a cash sum which they may invest in a separate money purchase scheme. These changes have transferred some of the mortality and investment risks to employees, which in turn has reduced the risk to the Corporation of providing a final salary scheme.



## 7 Service contracts

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

	Date of Contract	Notice Period
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.

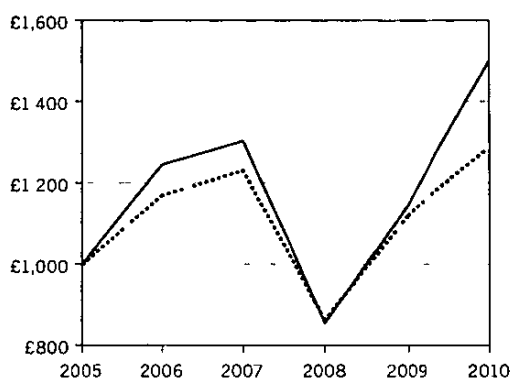
## 8 Remuneration of non-executive directors

The non-executive directors were paid fees for their services in 2010, as set out in paragraph 10. 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 board concluded in December 2010, for the third year running, that it would not be appropriate to increase fees in the current economic climate. All directors are expected to attend all meetings of the board and of any 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 23 as part of the corporate governance report.

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

## 9. Performance graph



- Law Debenture share price total return, assuming the investment of £1,000 on 31 December 2005 and reinvestment of all dividends (excluding dealing expenses)
- FTSE AllShare Index total return assuming notional investment of £1,000 into the index on 31 December 2005 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 AllShare Index over a five year period.
- 2 Dividends have been reinvested.

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continued

### 10 Directors' emoluments 2010 (audited)

	Total salary/fees £	Total bonus £	Benefits other than in cash £	Total receivable for 2010 £	Total receivable for 2009 £
C J Banszky	359,574	228,129	779	<b>588,482</b>	528,443
A C Cates	48,000	–	–	<b>48,000</b>	55,000
D C P McDougall	64,792	–	–	<b>64,792</b>	68,000
J A Kay	48,250	–	–	<b>48,250</b>	42,792
C Smith	52,708	–	–	<b>52,708</b>	34,375
R J Williams	–	–	–	–	8,750

#### Notes

- 1 Total salary/fees for Mrs Banszky comprises basic salary plus non-pensionable cash allowances of £69,574 as set out in paragraphs 1 and 6
- 2 Total bonus for Mrs Banszky comprises the discretionary bonus payable in respect of 2010 and the deferred shares vesting in 2010 as set out in paragraphs 3 and 14
- 3 No compensation or fee was paid to any individual who had previously been a director
- 4 Mr Williams retired at the AGM on 7 April 2009

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

	Change in accrued pension during 2010 £ pa	Accumulated total accrued pension at 31 December 2010 £ pa	Transfer value as at 31 December 2009 £000	Transfer value as at 31 December 2010 £000	Increase in transfer value £000
C J Banszky	(118)	<b>8,176</b>	147	<b>157</b>	10

#### Notes

- 1 The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 2010
- 2 The change in accrued pension during the year includes the effect of inflation
- 3 The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11
- 4 No previous directors are, or have been, in receipt of any excess retirement benefits
- 5 Mrs Banszky ceased to be a member of the scheme from 31 March 2006

### 12 Executive share option scheme (audited)

	Interest as at 31 December 2009	Granted in 2010	Exercised in 2010	Interest as at 31 December 2010	Exercise price	Earliest exercise	Latest exercise
C J Banszky 2004	31,364	–	(31,364)	–	228 2p	02 03 07	01 03 12

Following her option exercise in January 2010, Mrs Banszky has no remaining entitlements to options

The market price at the beginning of the year was 284 50p the highest price during the year was 359 90p the lowest price was 267 00p The market value at the date of exercise of the options was 287 30p, giving a gain of £18,536 which was subject to PAYE and NI

**13 Save as you earn share save plan (audited)**

	Interest as at 31 December 2009	Interest acquired in 2010	Exercise price	Market price at invitation date	Interest as at 31 December 2010	Earliest exercise	Latest exercise
C J Banszky	7,399	–	211 50p	247 25p	<b>7,399</b>	01 08 14	31 01 15

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

**14 Deferred share bonus plan (audited)**

	Interest at 31 December 2009	Interest (vested)/ acquired in 2010	Purchase price	Interest at 31 December 2010	Date shares to be released
C J Banszky					
2007	18,293	<b>(18,293)</b>	355 32p	–	–
2008 (January)	1,993	–	334 50p	<b>1,993</b>	25 01 11
2008 (March)	24,874	–	337 71p	<b>24,874</b>	03 03 11
2009	33,191	–	196 84p	<b>33,191</b>	02 03 12
2010	–	<b>22,865</b>	285 37p	<b>22,865</b>	25 02 13

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

Mrs Banszky received her allocation of 18,293 deferred shares issued in 2007 on 8 March 2010, and continues to hold them. The price at vesting was 295 90p. The value of the shares at vesting is included in directors' remuneration and PAYE and NI was paid on that basis. The market value of the shares at 31 December 2010 was 356 60p.

**15 Aggregate directors' remuneration**

	2010 £	2009 £
Emoluments	<b>802,232</b>	737,360
Gain on exercise of share options	<b>18,536</b>	51,585
	<b>820,768</b>	788,945

## 34 Independent auditor's report

to the members of The Law Debenture Corporation plc

We have audited the financial statements of The Law Debenture Corporation plc for the year ended 31 December 2010 which comprise the group and Corporation's statements of the financial position, the group income statement and statement of comprehensive income, the group and Corporation's statements of cash flows, the group and Corporation's statements of changes in equity, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, as regards the parent company financial statements, as applied in accordance with provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

### **Opinion on financial statements**

In our opinion

- the financial statements give a true and fair view of the state of the group's and the Corporation's affairs as at 31 December 2010 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Corporation's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006,
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- the information given in the corporate governance statement set out on pages 23 to 27 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the Corporation, or returns adequate for our audit have not been received from branches not visited by us, or
- the Corporation's financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a corporate governance statement has not been prepared by the company

Under the Listing Rules we are required to review

- the directors' statement, set out on page 26, in relation to going concern,
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code, UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the board on directors' remuneration



**Neil Fung-On** (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor  
London  
United Kingdom  
28 February 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

## 36 Group income statement

for the year ended 31 December

	Notes	2010			2009		
		Revenue £000	Capital £000	Total* £000	Revenue £000	Capital £000	Total* £000
UK dividends		10,180	–	10,180	9,097	–	9,097
UK special dividends		–	–	–	29	–	29
Overseas dividends		1,640	–	1,640	1,777	–	1,777
Overseas special dividends		76	–	76	56	–	56
Interest from securities		553	–	553	911	–	911
		12,449	–	12,449	11,870	–	11,870
Interest income	5	296	–	296	266	–	266
Independent fiduciary services fees		30,381	–	30,381	34,589	–	34,589
Other income		118	–	118	587	–	587
<b>Total income</b>		<b>43,244</b>	<b>–</b>	<b>43,244</b>	<b>47,312</b>	<b>–</b>	<b>47,312</b>
Net gain on investments held at fair value through profit or loss	2	–	68,476	68,476	–	73,856	73,856
<b>Gross income and capital gains</b>		<b>43,244</b>	<b>68,476</b>	<b>111,720</b>	<b>47,312</b>	<b>73,856</b>	<b>121,168</b>
Cost of sales		(6,184)	–	(6,184)	(11,521)	–	(11,521)
Administrative expenses	3	(17,368)	(146)	(17,514)	(15,840)	(283)	(16,123)
<b>Operating profit</b>		<b>19,692</b>	<b>68,330</b>	<b>88,022</b>	<b>19,951</b>	<b>73,573</b>	<b>93,524</b>
<b>Finance costs</b>							
Interest payable	5	(2,452)	–	(2,452)	(2,451)	–	(2,451)
<b>Profit before taxation</b>	6	<b>17,240</b>	<b>68,330</b>	<b>85,570</b>	<b>17,500</b>	<b>73,573</b>	<b>91,073</b>
Taxation	7	(1,679)	–	(1,679)	(2,243)	–	(2,243)
<b>Profit for year</b>	6	<b>15,561</b>	<b>68,330</b>	<b>83,891</b>	<b>15,257</b>	<b>73,573</b>	<b>88,830</b>
<b>Return per ordinary share (pence)</b>	9	<b>13.26</b>	<b>58.22</b>	<b>71.48</b>	<b>13.02</b>	<b>62.77</b>	<b>75.79</b>
<b>Diluted return per ordinary share (pence)</b>	9	<b>13.25</b>	<b>58.17</b>	<b>71.42</b>	<b>13.01</b>	<b>62.73</b>	<b>75.74</b>

\* See note 1

## Statement of comprehensive income

for the year ended 31 December

	2010			2009		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
<b>Group</b>						
<b>Profit for the year</b>	<b>15,561</b>	<b>68,330</b>	<b>83,891</b>	<b>15,257</b>	<b>73,573</b>	<b>88,830</b>
Foreign exchange on translation of foreign operations	–	102	102	–	(393)	(393)
Taxation on foreign exchange	–	–	–	–	27	27
Pension actuarial gains	283	–	283	2,279	–	2,279
Taxation on pension	(79)	–	(79)	(638)	–	(638)
<b>Total comprehensive income for the year</b>	<b>15,765</b>	<b>68,432</b>	<b>84,197</b>	<b>16,898</b>	<b>73,207</b>	<b>90,105</b>

## Statement of financial position 37

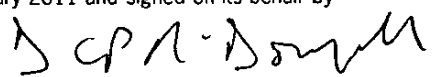
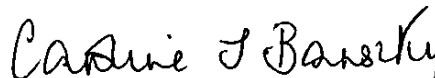
as at 31 December

		Group		Corporation	
	Notes	2010 £000	2009 £000	2010 £000	2009 £000
<b>Assets</b>					
<b>Non current assets</b>					
Goodwill	10	2,211	2,187	-	-
Property, plant and equipment	11	190	254	-	-
Other intangible assets	12	118	127	-	-
Investments held at fair value through profit or loss	13	441,337	373,066	441,072	372,801
Investments in subsidiary undertakings	13	-	-	50	58
Amounts due from subsidiary undertakings		-	-	60,000	60,000
Deferred tax assets	7	871	1,083	-	-
<b>Total non current assets</b>		<b>444,727</b>	<b>376,717</b>	<b>501,122</b>	<b>432,859</b>
<b>Current assets</b>					
Trade and other receivables	14	6,731	3,135	181	155
Other accrued income and prepaid expenses		3,797	5,059	1,673	1,700
Corporation tax receivable		-	221	-	-
Cash and cash equivalents	15	20,030	18,688	7,311	7,238
<b>Total current assets</b>		<b>30,558</b>	<b>27,103</b>	<b>9,165</b>	<b>9,093</b>
<b>Total assets</b>		<b>475,285</b>	<b>403,820</b>	<b>510,287</b>	<b>441,952</b>
<b>Current liabilities</b>					
Amounts owed to subsidiary undertakings		-	-	50,240	49,562
Trade and other payables	16	11,446	7,893	125	135
Short term borrowings	20	77	76	-	-
Corporation tax payable		1,119	1,119	393	747
Other taxation including social security		846	395	672	262
Deferred income		3,714	4,303	11	11
<b>Total current liabilities</b>		<b>17,202</b>	<b>13,786</b>	<b>51,441</b>	<b>50,717</b>
<b>Non current liabilities and deferred income</b>					
Long term borrowings	20	39,364	39,338	-	-
Retirement benefit obligations	23	876	1,928	-	-
Deferred income		5,277	6,366	224	234
<b>Total non current liabilities</b>		<b>45,517</b>	<b>47,632</b>	<b>224</b>	<b>234</b>
<b>Total net assets</b>		<b>412,566</b>	<b>342,402</b>	<b>458,622</b>	<b>391,001</b>
<b>Equity</b>					
Called up share capital	17	5,904	5,903	5,904	5,903
Share premium		8,066	8,038	8,066	8,038
Capital redemption		8	8	8	8
Share based payments		201	201	-	-
Own shares		(1,794)	(2,040)	-	-
Capital reserves	18	368,666	300,336	429,247	360,554
Retained earnings		30,993	29,536	15,397	16,498
Translation reserve		522	420	-	-
<b>Total equity</b>		<b>412,566</b>	<b>342,402</b>	<b>458,622</b>	<b>391,001</b>

Approved and authorised for issue by the board on 28 February 2011 and signed on its behalf by

D C P. McDougall Chairman

C J Banszky Managing director

## 38 Statement of changes in equity

for the year ended 31 December

	Share capital £000	Share premium £000
<b>Group</b>		
Balance at 1 January 2009	5,902	7,971
Net profit	-	-
Foreign exchange (net of tax)	-	-
Actuarial gain on pension scheme (net of tax)	-	-
Total comprehensive income	-	-
Issue of shares	1	67
Dividend relating to 2008	-	-
Dividend relating to 2009	-	-
Movement in own shares	-	-
<b>Total equity at 31 December 2009</b>	<b>5,903</b>	<b>8,038</b>
<b>Balance at 1 January 2010</b>	<b>5,903</b>	<b>8,038</b>
Net profit	-	-
Foreign exchange (net of tax)	-	-
Actuarial gain on pension scheme (net of tax)	-	-
Total comprehensive income	-	-
Issue of shares	1	28
Dividend relating to 2009	-	-
Dividend relating to 2010	-	-
Movement in own shares	-	-
<b>Total equity at 31 December 2010</b>	<b>5,904</b>	<b>8,066</b>
	Share capital £000	Share premium £000
<b>Corporation</b>		
Equity at 1 January 2009	5,902	7,971
Total comprehensive income	-	-
Issue of shares	1	67
Dividend relating to 2008	-	-
Dividend relating to 2009	-	-
<b>Total equity at 31 December 2009</b>	<b>5,903</b>	<b>8,038</b>
<b>Equity at 1 January 2010</b>	<b>5,903</b>	<b>8,038</b>
Total comprehensive income	-	-
Issue of shares	1	28
Dividend relating to 2009	-	-
Dividend relating to 2010	-	-
<b>Total equity at 31 December 2010</b>	<b>5,904</b>	<b>8,066</b>

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



Own shares £000	Capital redemption £000	Share based payments £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
(2,137)	8	201	786	226,763	26,929	266,423
-	-	-	-	73,573	15,257	88,830
-	-	-	(366)	-	-	(366)
-	-	-	-	-	1,641	1,641
-	-	-	(366)	73,573	16,898	90,105
-	-	-	-	-	-	68
-	-	-	-	-	(9,368)	(9,368)
-	-	-	-	-	(4,923)	(4,923)
97	-	-	-	-	-	97
(2,040)	8	201	420	300,336	29,536	342,402
(2,040)	8	201	420	300,336	29,536	342,402
-	-	-	-	68,330	15,561	83,891
-	-	-	102	-	-	102
-	-	-	-	-	204	204
-	-	-	102	68,330	15,765	84,197
-	-	-	-	-	-	29
-	-	-	-	-	(9,378)	(9,378)
-	-	-	-	-	(4,930)	(4,930)
246	-	-	-	-	-	246
(1,794)	8	201	522	368,666	30,993	412,566
Own shares £000	Capital redemption £000	Share based payments £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
-	8	-	-	286,981	16,766	317,628
-	-	-	-	73,573	14,023	87,596
-	-	-	-	-	-	68
-	-	-	-	-	(9,368)	(9,368)
-	-	-	-	-	(4,923)	(4,923)
-	8	-	-	360,554	16,498	391,001
-	8	-	-	360,554	16,498	391,001
-	-	-	-	68,693	13,207	81,900
-	-	-	-	-	-	29
-	-	-	-	-	(9,378)	(9,378)
-	-	-	-	-	(4,930)	(4,930)
-	8	-	-	429,247	15,397	458,622

## 40 Statements of cash flows

for the year ended 31 December

	Group		Corporation	
	2010 £000	2009 £000	2010 £000	2009 £000
<b>Operating activities</b>				
Operating profit before interest payable and taxation	88,022	93,524	84,979	91,344
Gains on investments	(68,330)	(73,573)	(68,693)	(73,573)
Foreign exchange	(24)	94	-	-
Depreciation of property, plant and equipment	122	271	-	-
Amortisation of intangible assets	95	61	-	-
Gain on curtailment of pension benefits	-	(694)	-	-
(Increase)/decrease in receivables	(2,334)	(152)	1	(175)
Increase/(decrease) in payables	2,352	(1,168)	390	(25)
Income gain on OEICs	(347)	(89)	(347)	(89)
UK and overseas withholding tax deducted at source	-	(158)	-	(158)
Normal pension contributions in excess of cost	(769)	(577)	-	-
<b>Cash generated from operating activities</b>	<b>18,787</b>	<b>17,539</b>	<b>16,330</b>	<b>17,324</b>
Taxation	(1,325)	(2,471)	(806)	(1,241)
Interest paid	(2,452)	(2,451)	(2,627)	(2,661)
<b>Operating cash flow</b>	<b>15,010</b>	<b>12,617</b>	<b>12,897</b>	<b>13,422</b>
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(58)	(48)	-	-
Expenditure on intangible assets	(86)	(105)	-	-
Purchase of investments	(36,262)	(82,236)	(36,262)	(82,176)
Sale of investments	36,676	71,475	36,676	71,475
Sale of subsidiary undertaking	-	-	371	-
<b>Cash flow from investing activities</b>	<b>270</b>	<b>(10,914)</b>	<b>785</b>	<b>(10,701)</b>
<b>Financing activities</b>				
Subsidiary undertakings	-	-	678	(1,480)
Dividends paid	(14,308)	(14,291)	(14,308)	(14,291)
Proceeds of increase in share capital	29	68	29	68
Purchase of own shares	246	97	-	-
<b>Net cash flow from financing activities</b>	<b>(14,033)</b>	<b>(14,126)</b>	<b>(13,601)</b>	<b>(15,703)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,247</b>	<b>(12,423)</b>	<b>81</b>	<b>(12,982)</b>
Cash and cash equivalents at beginning of period	18,612	31,505	7,238	20,297
Foreign exchange gains/(losses) on cash and cash equivalents	94	(470)	(8)	(77)
<b>Cash and cash equivalents at end of period</b>	<b>19,953</b>	<b>18,612</b>	<b>7,311</b>	<b>7,238</b>
<b>Cash and cash equivalents comprise</b>				
Cash and cash equivalents	20,030	18,688	7,311	7,238
Bank overdrafts	(77)	(76)	-	-
	<b>19,953</b>	<b>18,612</b>	<b>7,311</b>	<b>7,238</b>

## 1 Summary of significant accounting policies

### General Information

The Law Debenture Corporation plc is a public company incorporated in the United Kingdom. The address of the registered office is given on page 16. The group's operations and its principal activities are as an investment trust and the provider of independent fiduciary services.

### Basis of preparation

The financial statements of The Law Debenture Corporation plc have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Where presentational guidance set out in the Statement of Recommended Practice Financial Statements of Investment Trust Companies, January 2009 (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.

### Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in application of accounting policies which are set out below and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. However, actual results may differ from these estimates. The most significantly affected components of the financial statements and associated critical judgements is as follows:

#### Defined benefit scheme

The estimation of the expected cash flows used in the calculation of the defined benefit scheme's liabilities includes a number of assumptions around mortality, discount rates, inflation rates applicable to defined benefits and the average expected service lives of the employees (see note 23). The directors have considered the sensitivity to the mortality assumption and determined that if life expectancy were to increase by one year then the deficit of the scheme would increase by approximately £900,000. The directors take advice from the Scheme Actuary when selecting these assumptions and when selecting the discount rate used to calculate the defined benefit scheme liabilities.

### New IFRSs, interpretations and amendments not yet effective

None of the new standards, interpretations or amendments, which are effective for the first time in these financial statements has had a material impact on the financial statements.

None of the new standards, interpretations or amendments, but not yet effective are expected to have a material impact on the group's future financial statements.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of The Law Debenture Corporation plc and entities controlled by the Corporation (its subsidiaries) made up to the end of the financial period. Control is achieved where the Corporation 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 and statement of comprehensive income

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 and statement of comprehensive income between items of a revenue and capital nature has been presented. In accordance with the Corporation's status as a UK investment company under Section 833 of the Companies Act 2006, 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 Sections 1158-1159 Corporation Tax Act 2010. As permitted by Section 408 of the Companies Act 2006, the Corporation has not presented its own income statement.

## 42 Notes to the accounts

continued

### 1 Summary of significant accounting policies continued

#### **Segment reporting**

Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the directors in deciding how to allocate resources and in assessing performance. The group comprises two operating segments, the investment trust and independent fiduciary 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 reporting date are translated into sterling at the exchange rate ruling at that date. Gains and losses on translation are included in net profit or loss for the period, however exchange gains or losses on investments held at fair value through profit and 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 reporting 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 recognised in the statement of comprehensive income 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 lease period
Office furniture and equipment	3-10 years

#### **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 group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment would be recognised in profit or loss and is not subsequently reversed.

#### **Impairment of assets**

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

#### **Financial instruments**

##### *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 reporting 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.

## 1 Summary of significant accounting policies continued

### *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

### *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.

### **Share capital**

Ordinary shares are classified as equity. The ordinary shares of the Corporation 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.

### **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 substantively enacted by the year end 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.

The carrying amount of deferred tax assets is reviewed at each year end 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 substantively enacted at the year end 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*

Fees comprise 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 then the amount relating to future periods is deferred using an appropriate discount rate.

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### 1 Summary of significant accounting policies continued

#### **Employee benefits**

##### *Pension costs*

The group operates a defined benefit pension plan. The cost of providing benefits is determined using the project unit credit method, with independent actuarial calculations being carried out at each year end date. Actuarial gains and losses are recognised in full in the period in which they occur through other comprehensive income. 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 statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the year end 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.

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.

#### **Reserves**

A description of each of the reserves follows.

##### *Share premium*

This reserve represents the difference between the issue price of shares and the nominal value of shares at the date of issue, net of related issue costs.

##### *Capital redemption*

This reserve was created on the cancellation and repayment of the company's share capital.

##### *Share based payments*

This reserve represents the fair value cost of share based payments.

##### *Own shares*

This represents the cost of shares purchased by the ESOT.

##### *Capital reserves*

The following are dealt with through this reserve:

- Gains and losses on realisation of investments,
- Changes in fair value investments which are readily convertible to cash, and
- Amounts by which other assets and liabilities valued at fair value differ from their book value.

##### *Retained earnings*

Net revenue profits and losses of the Corporation and its subsidiaries and the fair value costs of share based payments which are revenue in nature are dealt with in this reserve.

##### *Translation reserve*

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

#### **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 Corporation's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by shareholders.

**2 Total capital gains from investments**

	2010 £000	2009 £000
Realised gains/(losses) based on historical cost	4,833	(49)
Amounts recognised as unrealised in previous years	(1,789)	18,115
Realised gains based on carrying value at previous year end date	3,044	18,066
Unrealised gains on investments	65,779	55,879
	68,823	73,945
Transfers to revenue	(347)	(89)
	68,476	73,856

**3 Administrative expenses**

	2010 £000	2009 £000
<b>Administrative expenses include</b>		
Salaries and directors' fees	8,987	9,431
Social security costs	933	998
Other pension costs	660	(55)
Investment management fee	965	751
Irrecoverable/(recovered) VAT on investment management fees	20	(143)
Depreciation – property, plant and equipment	122	271
Amortisation – intangible assets	95	61
Operating leases – land and buildings	1,335	1,267
Foreign exchange	24	(29)
Auditors' remuneration	149	132

Other pension costs is net of the gain on curtailment of pension benefits during the year of £nil (2009 £694,000), (see note 23)  
During the year, the group employed an average of 109 staff (2009 114) All staff are engaged in the provision of independent fiduciary services The Corporation has no employees

Details of the terms of the investment management agreement are provided on page 21 of the directors' report

Administrative expenses charged to capital are transaction costs and foreign exchange differences on the purchase of investments held at fair value through profit or loss

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

	2010 £000	2009 £000
<b>Audit services</b>		
– fees payable to the Corporation's auditors for the audit of its financial statements*	137	123
– audit related regulatory	6	4
Tax services	6	5
Other services	–	–
	149	132

\* Including the Corporation £25,000 (2009 £25,000)

These figures do not include fees receivable by the auditors for work undertaken by them in connection with the audits of special purpose vehicles administered by the group as part of its independent fiduciary services business

A description of the work of the audit committee is set out in the corporate governance report on page 25 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors

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### 4 Remuneration of directors

	2010 £000	2009 £000
Directors' emoluments, which comprise the following, are included in administrative expenses		
Non-executive directors' fees	214	209
Management remuneration	588	528
	<b>802</b>	<b>737</b>

The emoluments of the highest paid director totalled £588,000 (2009 £528,000) and included employer pension contributions of £nil (2009 £nil) and amounts under the terms of the employee bonus plans of £228,000 (2009 £168,000). Her accrued pension entitlement is as follows

	2010 £000	2009 £000
Change during year including effect of inflation	–	–
Accumulated total accrued pension per annum at 31 December	8	8
Transfer value of increase in accrued pension based on actuarial advice	10	6

Annual pension entitlements shown above are based upon service up to 31 December 2010 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 28.

### 5 Interest

	2010 £000	2009 £000
<b>Interest income</b>		
Interest on bank deposits	46	117
Returns on money market funds	59	180
Returns on pension scheme (net)	191	(31)
	<b>296</b>	<b>266</b>
<b>Interest payable</b>		
Interest on debenture stock	2,450	2,450
Interest on bank overdrafts	2	1
	<b>2,452</b>	<b>2,451</b>
<b>Interest (net)</b>	<b>(2,156)</b>	<b>(2,185)</b>



## 6 Segmental analysis

	Investment trust		Independent fiduciary services		Total	
	31 December 2010 £000	31 December 2009 £000	31 December 2010 £000	31 December 2009 £000	31 December 2010 £000	31 December 2009 £000
<b>Revenue</b>						
Segment income	12,449	11,870	30,381	34,589	42,830	46,459
Other income	87	587	31	–	118	587
Cost of sales	–	–	(6,184)	(11,521)	(6,184)	(11,521)
Administration costs	(1,679)	(1,365)	(15,689)	(14,475)	(17,368)	(15,840)
	10,857	11,092	8,539	8,593	19,396	19,685
Interest (net)	(2,565)	(2,347)	409	162	(2,156)	(2,185)
Return, including profit on ordinary activities before taxation	8,292	8,745	8,948	8,755	17,240	17,500
Taxation	–	(158)	(1,679)	(2,085)	(1,679)	(2,243)
Return, including profit attributable to shareholders	8,292	8,587	7,269	6,670	15,561	15,257
Revenue return per ordinary share	7.07	7.33	6.19	5.69	13.26	13.02
Assets	450,287	381,952	24,223	21,868	474,510	403,820
Liabilities	(51,665)	(50,951)	(10,279)	(10,467)	(61,944)	(61,418)
<b>Total net assets</b>	<b>398,622</b>	<b>331,001</b>	<b>13,944</b>	<b>11,401</b>	<b>412,566</b>	<b>342,402</b>

The capital element of the income statement is wholly attributable to the investment trust. Details regarding the segments are included on page 1 – Group summary and in note 1 – Segment reporting.

	Investment trust		Independent fiduciary services		Total	
	31 December 2010 £000	31 December 2009 £000	31 December 2010 £000	31 December 2009 £000	31 December 2010 £000	31 December 2009 £000
<b>Other information</b>						
Capital expenditure	–	–	144	153	144	153
Depreciation	–	–	217	332	217	332

## 7 Taxation

	2010 £000	2009 £000
Taxation based on revenue for the year comprises		
UK Corporation tax at 28.0% (2009: 28.0%)	1,101	1,535
Adjustments in respect of prior years	(52)	(111)
	1,049	1,424
<b>Overseas tax</b>		
Current tax on income for the year	496	599
Total current tax charge	1,545	2,023
Deferred tax	134	220
	1,679	2,243

## 48 Notes to the accounts

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### 7 Taxation continued

#### Taxation

The charge for the year can be reconciled to the profit per the income statement as follows

	2010 £000	2009 £000
Profit/(loss) before taxation	85,570	91,073
Tax on ordinary activities at standard rate 28.0% (2009 28.0%)	23,960	25,500
Effects of		
Expenses not deductible for tax purposes	10	15
Higher rates of tax on overseas income	113	103
Non taxable capital gains	(19,132)	(20,680)
Tax credit on dividend income	(2,963)	(2,486)
Adjustment in respect of prior periods	(52)	(111)
Recovery of overseas tax	(290)	(158)
Losses on overseas companies for which no tax relief arises	–	42
Other differences	33	18
	1,679	2,243

The group expects that a substantial portion of its future income will continue to be in the form of dividend receipts and capital gains, which constitute non-taxable income. On this basis, the group tax charge is expected to remain significantly different to the 28% 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	Other employee benefits £000	Total £000
At 1 January 2009	362	1,534	57	1,953
Credit/(charge) to income	136	(356)	–	(220)
(Charge) to other comprehensive income	–	(638)	–	(638)
Foreign exchange	(12)	–	–	(12)
At 1 January 2010	486	540	57	1,083
(Charge)/credit to income	82	(216)	–	(134)
(Charge) to other comprehensive income	–	(79)	–	(79)
Foreign exchange	1	–	–	1
At 31 December 2010	569	245	57	871

**8 Dividends on ordinary shares**

	2010 £000	2009 £000
Dividends on ordinary shares comprise the following		
2010 Interim 4 2p (2009 4 2p)	4,930	4,923
2009 Final 8 0p (2008 8 0p)	9,378	9,368
<b>Total for year</b>	<b>14,308</b>	<b>14,291</b>
<b>Proposed final dividend for the year ended 31 December 2010</b>	<b>9,979</b>	

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

Set out below is the total dividend payable in respect of the financial year, which is the basis on which the requirements of Sections 1158-1159 of the Corporation Tax Act 2010 are considered

	2010 £000	2009 £000
2010 Interim 4 2p (2009 4 2p)	4,930	4,923
2010 Final 8 5p (2009 8 0p)	9,979	9,388
	<b>14,909</b>	<b>14,311</b>

On this basis Law Debenture satisfies the requirements of Sections 1158-1159 of the Corporation Tax Act 2010, as an approved investment trust company

Dividends have been waived in respect of the 680,395 shares owned by the Employee Share Ownership Trust ('ESOT') (see note 17)

**9 Earnings per share from continuing operations**

Revenue return is based on profits attributable of £15,561,000 (2009 £15,257,000)

Capital return per share is based on net capital gains for the year of £68,330,000 (2009 net capital gains £73,573,000)

Total return per share is based on net gains for the year of 83,891,000 (2009 net gains £88,830,000)

The calculations of returns per share are based on 117,366,347 (2009 117,206,258) shares, being the weighted average number of shares in issue during the year after adjusting for shares owned by the ESOT. In 2010 total, revenue and capital diluted returns per share were calculated using 117,462,548 shares (2009 117,286,720 shares), being the diluted weighted average number of shares in issue assuming exercise of options at less than fair value. There were 4,867 (2009 147,568) antidilutive shares

**10 Goodwill**

	2010 £000	2009 £000
Cost		
At 1 January	2,187	3,181
Adjustment to contingent consideration	–	(900)
Foreign exchange	24	(94)
<b>At 31 December</b>	<b>2,211</b>	<b>2,187</b>

The goodwill is identifiable with separate operating companies (Safecall Limited – £1,419,000 and Delaware Corporate Services Inc – £792,000). At 31 December 2010 the goodwill in relation to the operating companies was reviewed. The review assessed whether the carrying value of goodwill was supported by the net present value of future cash flows based on management forecasts for 2011, assumed annual growth based on current expectations of 5% and 8% and a discount rate of 5%. On this basis the goodwill is not considered to be impaired. If the assumed annual growth for both operating units were 5% then there would be an implied impairment of £nil (2009 £154,000)

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### 11 Property, plant and equipment

#### Group

	2010			2009		
	Leasehold improvements £000	Office furniture & equipment £000	Total £000	Leasehold improvements £000	Office furniture & equipment £000	Total £000
<b>Cost</b>						
At 1 January	777	972	1,749	777	924	1,701
Additions at cost	–	58	58	–	48	48
At 31 December	777	1,030	1,807	777	972	1,749
<b>Accumulated depreciation</b>						
At 1 January	660	835	1,495	503	721	1,224
Charge	40	82	122	157	114	271
At 31 December	700	917	1,617	660	835	1,495
<b>Net book value at 31 December</b>	<b>77</b>	<b>113</b>	<b>190</b>	<b>117</b>	<b>137</b>	<b>254</b>

The Corporation holds no property, plant and equipment

### 12 Other intangible assets

#### Group

	Computer software 2010 £000	Computer software 2009 £000
<b>Cost</b>		
At 1 January	773	668
Additions at cost	86	105
At 31 December	859	773
<b>Accumulated amortisation</b>		
At 1 January	646	585
Charge	95	61
At 31 December	741	646
<b>Net book value at 31 December</b>	<b>118</b>	<b>127</b>

The Corporation holds no other intangible assets

### 13 Investments

#### Investments held at fair value through profit or loss

	2010			2009		
	Listed £000	Unlisted £000	Total £000	Listed £000	Unlisted £000	Total £000
<b>Group</b>						
Opening cost at 1 January	311,663	265	311,298	301,217	205	301,422
Gains/(losses) at 1 January	61,138	–	61,138	(12,856)	–	(12,856)
Opening fair value at 1 January	372,801	265	373,066	288,361	205	288,566
Purchases at cost	36,262	–	36,262	82,176	60	82,236
Cost of acquisition	(138)	–	(138)	(206)	–	(206)
Sales – proceeds	(36,676)	–	(36,676)	(71,475)	–	(71,475)
– realised gains/(losses) on sales	4,833	–	4,833	(49)	–	(49)
Gains in the income statement	63,990	–	63,990	73,994	–	73,994
<b>Closing fair value at 31 December</b>	<b>441,072</b>	<b>265</b>	<b>441,337</b>	<b>372,801</b>	<b>265</b>	<b>373,066</b>
Closing cost at 31 December	315,944	265	316,209	311,663	265	311,928
Gains	125,218	–	125,218	61,138	–	61,138
<b>Closing fair value at 31 December</b>	<b>441,072</b>	<b>265</b>	<b>441,337</b>	<b>372,801</b>	<b>265</b>	<b>373,066</b>
	2010			2009		
	Listed £000	Unlisted £000	Total £000	Listed £000	Unlisted £000	Total £000
<b>Corporation</b>						
Opening cost at 1 January	316,761	–	316,761	306,314	–	306,314
Gains/(losses) at 1 January	56,040	–	56,040	(17,953)	–	(17,953)
Opening fair value at 1 January	372,801	–	372,801	288,361	–	288,361
Purchases at cost	36,262	–	36,262	82,176	–	82,176
Cost of acquisition	(138)	–	(138)	(206)	–	(206)
Sales – proceeds	(36,676)	–	(36,676)	(71,475)	–	(71,475)
– realised gains/(losses) on sales	4,833	–	4,833	(49)	–	(49)
Gains in the income statement	63,990	–	63,990	73,994	–	73,994
<b>Closing fair value at 31 December</b>	<b>441,072</b>	<b>–</b>	<b>441,072</b>	<b>372,801</b>	<b>–</b>	<b>372,801</b>
Closing cost at 31 December	321,042	–	321,042	316,761	–	316,761
Gains	120,030	–	120,030	56,040	–	56,040
<b>Closing fair value at 31 December</b>	<b>441,072</b>	<b>–</b>	<b>441,072</b>	<b>372,801</b>	<b>–</b>	<b>372,801</b>

Listed investments are all traded on active markets and as defined by IFRS 7 are Level 1 financial instruments. As such they are valued at unadjusted quoted bid prices.

Included in unlisted investments in the group statement of financial position are subsidiary undertakings which are held in connection with the group's independent fiduciary services business and in which the group holds all 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 fees of £228,578 (2009: £225,464) in respect of these undertakings.

There were no amounts outstanding with these undertakings at the year end (2009: £nil).

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### 13 Investments continued

#### Investments in subsidiary undertakings – Corporation

	2010 £000	2009 £000
<b>Cost</b>		
At 1 January	58	58
Disposal	(8)	–
<b>At 31 December</b>	<b>50</b>	<b>58</b>

During the year the Corporation sold its interest in The Law Debenture (H K ) Limited to LDC Trust Management Limited for £371,000

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 independent fiduciary services.

† Delaware Corporate Services Inc (incorporated in Delaware)

† 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 Holding Inc (incorporated in New York)

† Law Debenture Intermediary Corporation p l c

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

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

† Law Debenture Trustees Limited

† Law Debenture Asset Backed Solutions Limited

† LDC (NCS) Limited

† The Law Debenture Corporation (Deutschland) Limited

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

† The Law Debenture Pension Trust Corporation p l c

† The Law Debenture Trust Corporation p l c

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

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

† Safecall Limited

† Shares held by a subsidiary

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

**14 Trade and other receivables**

An allowance has been made during the year for the estimated irrecoverable amounts from the sale of services of £212,000 (2009 £280,000). This allowance has been determined by reference to past experience.

**15 Cash and cash equivalents**

These comprise cash held at bank by the group, short term bank deposits with an original maturity of three months or less and money market funds with immediate access. 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.

**17 Called up share capital**

	2010 £000	2009 £000
<b>Allotted, issued and fully paid share capital</b>		
Value		
As at 1 January	5,903	5,902
Issued in year	1	1
<b>As at 31 December</b>	<b>5,904</b>	<b>5,903</b>
<b>Shares</b>		
As at 1 January	118,067,388	118,034,023
Issued in year	12,349	33,365
<b>As at 31 December</b>	<b>118,079,737</b>	<b>118,067,388</b>

During the year to 31 December 2010, 12,349 shares were allotted under the SAYE Scheme for a total consideration of £29,727 which includes a premium of £29,110.

During the year, 14,805 options were granted under the Corporation's SAYE scheme. At 31 December 2010, options under the SAYE Scheme and Executive Share Option Scheme exercisable from 2010 to 2014 at prices ranging from 174 4p to 349 8p per share were outstanding in respect of 302,582 ordinary shares (2009 474,854 ordinary shares). During 2010 20,161 options lapsed or were cancelled (2009 90,568) and 166,916 were exercised.

Further details of options outstanding are given in the directors' report on page 21.

**Own shares held**

	2010 £000	2009 £000
Own shares held – cost	1,794	2,040

The own shares held represent the cost of 680,395 (2009 786,604) 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 2010 was £2,426,289.

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### 18 Capital reserves

	2010			2009		
	Unrealised appreciation £000	Realised reserves £000	Total £000	Unrealised appreciation/ (depreciation) £000	Realised reserves £000	Total £000
<b>Group</b>						
At 1 January	57,747	242,589	300,336	(15,875)	242,638	226,763
Transfer on disposal of investments	(1,789)	1,789	–	18,115	(18,115)	–
Net gains on investments	65,779	3,044	68,823	55,879	18,066	73,945
Cost of acquisition	(138)	–	(138)	(206)	–	(206)
Foreign exchange	(8)	–	(8)	(77)	–	(77)
Transfers to revenue	(347)	–	(347)	(89)	–	(89)
<b>At 31 December</b>	<b>121,244</b>	<b>247,422</b>	<b>368,666</b>	<b>57,747</b>	<b>242,589</b>	<b>300,336</b>
	2010			2009		
	Unrealised appreciation £000	Realised reserves £000	Total £000	Unrealised appreciation/ (depreciation) £000	Realised reserves £000	Total £000
<b>Corporation</b>						
At 1 January	53,011	307,543	360,554	(20,611)	307,592	286,981
Transfer on disposal of investments	(1,789)	1,789	–	18,115	(18,115)	–
Net gains on investments	65,779	3,407	69,186	55,879	18,066	73,945
Cost of acquisition	(138)	–	(138)	(206)	–	(206)
Foreign exchange	(8)	–	(8)	(77)	–	(77)
Transfers to revenue	(347)	–	(347)	(89)	–	(89)
<b>At 31 December</b>	<b>116,508</b>	<b>312,739</b>	<b>429,247</b>	<b>53,011</b>	<b>307,543</b>	<b>360,554</b>

### 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. Information in respect of the investment portfolio is included on pages 7 to 13.

#### Capital management

As an investment trust the Corporation is not allowed to distribute capital profits, even if realised. The Corporation is required to distribute at least 85% of its revenue profits each year and has a policy to increase dividends, however revenue profits are calculated after all expenses and distributions will not be made if they impair the investment policy. The investment policy of the Corporation is disclosed in the director's report on page 18 and includes a ceiling on effective gearing of 150%, with a typical range of 90% to 120%.



## 19 Financial instruments continued

The group and Corporation held the following categories of financial assets and liabilities at 31 December 2010

### Group

	2010 £000	2009 £000
<b>Assets</b>		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition)		
Equity investments	432,993	357,134
Debt investments	8,344	15,932
	<b>441,337</b>	<b>373,066</b>
Loans and receivables		
Trade and other receivables	6,731	3,135
Cash and cash equivalents	20,030	18,688
	<b>26,761</b>	<b>21,823</b>
<b>Total financial assets</b>	<b>468,098</b>	<b>394,889</b>
<b>Liabilities</b>		
Financial liabilities measured at amortised cost		
Loans and payables		
Trade and other payables	11,446	7,893
Short term borrowings	77	76
	<b>11,523</b>	<b>7,969</b>
Long term borrowings	39,364	39,338
<b>Total financial liabilities</b>	<b>50,887</b>	<b>47,307</b>

### Corporation

	2010 £000	2009 £000
<b>Assets</b>		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition)		
Equity investments	432,728	356,869
Debt investments	8,344	15,932
	<b>441,072</b>	<b>372,801</b>
Loans and receivables		
Amounts due from subsidiary undertakings	60,000	60,000
Trade and other receivables	181	155
Cash and cash equivalents	7,311	7,238
	<b>67,492</b>	<b>67,393</b>
<b>Total financial assets</b>	<b>508,564</b>	<b>440,194</b>
<b>Liabilities</b>		
Financial liabilities measured at amortised cost		
Loans and payables		
Amounts owed to subsidiary undertakings	50,240	49,562
Trade and other payables	125	135
<b>Total financial liabilities</b>	<b>50,365</b>	<b>49,697</b>

## 56 Notes to the accounts

continued

### 19 Financial instruments continued

The principal risks facing the group in respect of its financial instruments remain unchanged from 2009 and are

- **market price risk**, arising from uncertainty in the future value of financial instruments. The board maintains policy guidelines whereby risk is spread over a range of investments, the number of holdings normally being between 70 and 150. 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. The investment portfolio is exposed to market price fluctuation. If the valuation at 31 December 2010 fell or rose by 10%, the impact on the group's total profit or loss for the year would have been £44.1 million (2009: £37.3 million). Corresponding 10% changes in the valuation of the investment portfolio on the Corporation's total profit or loss for the year would have been the same.
- **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 group's financial assets denominated in currencies other than sterling were

	2010			2009		
	Investments £m	Net monetary assets £m	Total currency exposure £m	Investments £m	Net monetary assets £m	Total currency exposure £m
<b>Group</b>						
US Dollar	28.5	3.8	32.3	17.0	3.5	20.5
Canadian Dollar	1.7	–	1.7	1.4	–	1.4
Euro	26.2	3.9	30.1	28.8	0.7	29.5
Danish Krone	0.8	–	0.8	0.8	–	0.8
Swedish Krona	1.1	–	1.1	0.7	–	0.7
Swiss Franc	13.3	–	13.3	12.8	–	12.8
Hong Kong Dollar	–	0.4	0.4	–	0.4	0.4
Japanese Yen	6.6	–	6.6	5.9	–	5.9
	<b>78.2</b>	<b>8.1</b>	<b>86.3</b>	<b>67.4</b>	<b>4.6</b>	<b>72.0</b>

	2010			2009		
	Investments £m	Net monetary assets £m	Total currency exposure £m	Investments £m	Net monetary assets £m	Total currency exposure £m
<b>Corporation</b>						
US Dollar	28.5	0.6	29.1	17.0	–	17.0
Canadian Dollar	1.7	–	1.7	1.4	–	1.4
Euro	26.2	3.8	30.0	28.8	0.5	29.3
Danish Krone	0.8	–	0.8	0.8	–	0.8
Swedish Krona	1.1	–	1.1	0.7	–	0.7
Swiss Franc	13.3	–	13.3	12.8	–	12.8
Japanese Yen	6.6	–	6.6	5.9	–	5.9
	<b>78.2</b>	<b>4.4</b>	<b>82.6</b>	<b>67.4</b>	<b>0.5</b>	<b>67.9</b>

The holdings in the Henderson Japan Capital Growth, Henderson Pacific Capital Growth, Baillie Gifford Pacific and First Asia Pacific, OEICs and Scottish Oriental Smaller Company Trust are denominated in sterling but have underlying assets in foreign currencies equivalent to £49.7 million (2009: £39.1 million). Investments made in the UK and overseas have underlying assets and income streams in foreign currencies which cannot be determined and this has not been included in the sensitivity analysis. If the value of all other currencies at 31 December 2010 rose or fell by 10% against sterling, the impact on the group's total profit or loss for the year would have been £12.8 million (2009: £10.7 million). Corresponding 10% changes in currency values on the Corporation's total profit or loss for the year would have been the same. The calculations are based on the investment portfolio at the respective year end dates and are not representative of the year as a whole.

## 19 Financial instruments continued

- **liquidity risk**, arising from any difficulty in realising assets or raising funds to meet commitments associated with any of the above financial instruments. To minimise this risk, the board's policy guidelines only permit investment in equities and fixed interest securities quoted in major financial markets. In addition, cash balances and overdraft facilities are maintained commensurate with likely future settlements. The maturity of the group's existing borrowings is set out in note 20.
- **interest rate risk**, arising from movements in interest rates on borrowing, deposits and short term investments. The board reviews the mix of fixed and floating rate exposures and ensures that gearing levels are appropriate to the current and anticipated market environment. The group's interest rate profile at 31 December 2010 was

	Group				Corporation		
	Sterling £m	HK Dollars £m	US Dollars £m	Euro £m	Sterling £m	US Dollars £m	Euro £m
Fixed rate assets	-	-	-	-	-	-	-
Floating rate assets	11.9	0.4	3.8	3.9	2.9	0.6	3.8
Fixed rate liabilities*	39.4	-	-	-	-	-	-
Weighted average fixed rate	6.125%						

\* Fixed until 2034

The group holds cash and cash equivalents on short term bank deposits and money market funds. Interest rates tend to vary with bank base rates. The investment portfolio is not directly exposed to interest rate risk.

If interest rates during the year were 1.0% higher the impact on the group's total profit or loss for the year would have been £144,000 (2009: £135,000). It is assumed that interest rates are unlikely to fall below the current level.

The Corporation holds cash and cash equivalents on short term bank deposits and money market funds. Amounts due from subsidiary undertakings are for a term of five years and carry interest at a fixed rate (see note 13). Amounts owed to subsidiary undertakings include £40 million at a fixed rate. Interest rates on cash and cash equivalents and amounts due to subsidiary undertakings at floating rates tend to vary with bank base rates. A 1.0% increase in interest rates would have affected the Corporation's profit or loss for the year by £53,000 (2009: £52,000). The calculations are based on the balances at the respective year end dates and are not representative of the year as a whole.

- **credit risk**, arising from the failure of another party to perform according to the terms of their contract. The group minimises credit risk through policies which restrict deposits to highly rated financial institutions and restrict the maximum exposure to any individual financial institution. The group's maximum exposure to credit risk arising from financial assets is £26.8 million (2009: £21.8 million). The Corporation's maximum exposure to credit risk arising from financial assets is £67.5 million (2009: £67.4 million).

### Trade and other receivables

Trade and other receivables not impaired but past due by the following

	Group		Corporation	
	2010 £000	2009 £000	2010 £000	2009 £000
Between 31 and 60 days	737	797	7	25
Between 61 and 90 days	356	307	-	3
More than 91 days	678	597	174	97
Total	1,771	1,701	181	125

## 58 Notes to the accounts

continued

### 19 Financial instruments continued

#### Trade and other payables

	Group		Corporation	
	2010 £000	2009 £000	2010 £000	2009 £000
Due in less than one month	10,873	7,341	125	135
Due in more than one month	573	552	–	–
	11,446	7,893	125	135

#### Fair value

The directors are of the opinion that the fair value of financial assets and liabilities of the group are not materially different to their carrying values

### 20 Bank overdrafts and loans

	2010 %	2009 %
The weighted average interest rates were as follows		
Bank overdrafts	1.50	1.64

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	
	2010 £000	2009 £000	2010 £000	2009 £000
<b>Borrowings are repayable as follows</b>				
In one year or less	77	76	–	–
In more than five years				
<b>Secured</b>				
6 125% guaranteed secured bonds 2034	39,364	39,338	–	–

The sterling bank overdrafts of £77,000 (2009: £76,000) have been incurred in connection with the independent fiduciary services business

The 6 125% bonds were issued by Law Debenture Finance plc and guaranteed by the Corporation. The £40 million nominal tranche, which produced proceeds of £39.1 million, is constituted by Trust Deed dated 12 October 1999 and the Corporation's guarantee is secured by a floating charge on the undertaking and assets of the Corporation. The stock is redeemable at its nominal amount on 12 October 2034. Interest is payable semi-annually in equal instalments on 12 April and 12 October in each year.

#### Analysis of borrowings by currency

	2010		2009	
	Sterling £000	Total £000	Sterling £000	Total £000
Bank overdrafts	77	77	76	76

## 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\$50 million

The group is also from time to time party to legal proceedings and claims, which arise in the ordinary course of the independent fiduciary 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

## 22 Lease commitments

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

	2010 £000	2009 £000
Less than one year	1,260	1,246
Two to five years	5,920	5,967
More than five years	3,244	4,424
	<b>10,424</b>	<b>11,637</b>

Lease payments represent rentals payable by the group for its office properties. The lease for the main property was negotiated for a term of 16 years and rentals are fixed for an average of five 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 liability recognised in the statement of financial position 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 Credit Method

At 31 December 2010, the expected rate of return on assets is 6.4% pa (2009: 6.5% 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 2010

The estimated employer and employee contributions expected to be paid to the plan during 2011 is £10 million. The next triennial actuarial valuation is due at 31 December 2011

## 60 Notes to the accounts

continued

### 23 Pension commitments continued

The major assumptions in the 31 December 2010 disclosure under IAS19 are shown below and are applied to membership data supplied at that date. This shows the net pension assets and liabilities

	2010 %	2009 %
<b>Principal actuarial assumptions</b>		
Retail Price Inflation	3.5	3.5
Discount rate	5.3	5.5
5% LPI Pension increases in payment	3.4	3.4
General salary increases	5.0	5.0
Expected return on assets	6.4	6.5
	<b>Years</b>	<b>Years</b>
Life expectancy of male aged 65 in 2010	23.1	22.3
Life expectancy of male aged 65 in 2030	26.2	24.2

	2010 £000	2009 £000
Present value of defined benefit obligation	33,525	30,717
Fair value of plan assets	(32,649)	(28,789)
Deficit in statement of financial position	876	1,928

	2010 £000	2009 £000
<b>The amounts recognised in profit or loss are as follows</b>		
Employer's part of current service cost	354	400
Interest cost	1,681	1,517
Expected return on plan assets	(1,872)	(1,486)
Gain on curtailments	–	(694)
Total expense/(gain) recognised in profit or loss	163	(263)

The gain on curtailments represents the reduction in the defined benefit obligation as a result of the benefit change made on 1 April 2009

	2010		2009	
	Allocation %	£000	Allocation %	£000
<b>The current allocation of plan assets is as follows</b>				
Equities	65	21,373	66	19,019
Bonds	9	2,877	9	2,531
Gilts	23	7,408	22	6,298
Pensioners annuities	3	847	3	878
Other	–	144	–	63
Total	100	32,649	100	28,789

## 23 Pension commitments continued

	2010 £000	2009 £000			
<b>Reconciliation of present value of defined benefit obligation</b>					
At 1 January	30,717	29,244			
Employer's part of current service cost	354	400			
Interest cost	1,681	1,517			
Contributions by plan participants	69	90			
Actuarial losses	1,451	804			
Benefits paid	(747)	(644)			
Curtailments	-	(694)			
At 31 December	33,525	30,717			
	2010 £000	2009 £000			
<b>Reconciliation of fair value of plan assets</b>					
At 1 January	28,789	23,766			
Expected return on plan assets	1,872	1,486			
Actuarial gains/(losses)	1,734	3,083			
Contributions by the employer	932	1,008			
Contributions by plan participants	69	90			
Benefits paid	(747)	(644)			
At 31 December	32,649	28,789			
	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
<b>Principal actuarial assumptions</b>					
Present value of defined benefit obligation	33,525	30,717	29,244	26,968	25,440
Fair value of plan assets	(32,649)	(28,789)	(23,766)	(26,711)	(24,367)
Deficit	876	1,928	5,478	257	1,073
<b>Experience adjustments on plan assets</b>					
Amount of gain/(loss)	1,734	3,083	(5,351)	(252)	816
Percentage of plan assets	5%	11%	(23%)	(1%)	3%
<b>Experience adjustments on plan liabilities</b>					
Amount of (loss)/gain	(61)	691	7	326	39
Percentage of the present value of the plan liabilities	-	2%	-	1%	-
<b>Expense to be recognised immediately outside profit or loss</b>					
Actuarial gains/(losses)	283	2,279	(6,032)	26	3,119





## 62 Notes to the accounts

continued

### 24 Share based payments

The group operates a share option scheme for the executive director and senior members of staff. Details of which are included in paragraph 5 of the remuneration report on page 30.

Details of the share options outstanding were

	2010		2009	
	Number of share options	Weighted average price Pence	Number of share options	Weighted average price Pence
Outstanding at 1 January	191,017	197.04	297,558	191.66
Exercised during the year	(154,567)	291.62	(106,541)	182.19
<b>Outstanding at 31 December</b>	<b>36,450</b>	<b>210.07</b>	191,017	197.04
<b>Exercisable at 31 December</b>	<b>36,450</b>	<b>210.07</b>	191,017	197.04
			<b>2010 Pence</b>	<b>2009 Pence</b>
Weighted average share price at date of exercise			<b>291.62</b>	270.99

Details of the number of option holders is given on page 21 of the directors' report.

The group recognised total expenses of £nil (2009: £nil) in respect of share based payment transactions.

During the year the Deferred Share Bonus Plan made awards in respect of 190,583 with a market value of £543,869 which will be released to executives in March 2013. 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:

	2010 £000	2009 £000
Dividends from subsidiaries	500	1,500
Interest on intercompany balances charged by subsidiaries	2,627	2,661
Management charges from subsidiaries	400	400
Interest on intercompany balances charged to subsidiaries	4,930	5,073

#### Investment trust status

The Corporation carries on business as an investment trust company as defined in Sections 1158-1159 of the Corporation Tax Act 2010. The directors will endeavour to conduct its affairs so as to enable it to maintain HM Revenue & Customs 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 AIC and are available from the company secretary on request.

#### Company share information

Information about the Corporation can be found on its 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

Telephone – 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.

#### Registrars

Our registrars, Computershare Investor Services plc, operate a dedicated telephone service for Law Debenture shareholders – 0870 707 1129.

Shareholders can use this number to access holding balances, dividend payment details, share price data, or to request that a form be sent to their registered address.

## 64 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**

First Quarter	
Interim Statement	Announced in April
Half year results	Announced in July
Third Quarter	
Interim Statement	Announced in October
Full year results	Announced in February
Report and accounts	Published in March
Annual general meeting	Held in London in April
Factsheets	Published monthly on the Corporation's website

### **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

**Notice of annual general meeting**

**NOTICE IS HEREBY GIVEN** that the 121st annual general meeting of the Corporation will be held on 12 April 2011 at 11.00am 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 2010**
- 2 To receive and approve the directors' remuneration report for the year ended 31 December 2010**
- 3 To declare a final dividend of 8.5p per share in respect of the year ended 31 December 2010.**
- 4 To re-elect Douglas McDougall as a director**
- 5 To re-elect Armel Cates as a director.**
- 6 To re-elect Caroline Banszky as a director.**
- 7 To re-elect John Kay as a director**
- 8 To re-elect Christopher Smith as a director**
- 9 To re-appoint BDO 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**

**10 General authority to buy back shares**

THAT the Corporation be and is generally and unconditionally authorised in accordance with Sections 693 and 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of Section 693(4) of the Act) of any of its issued ordinary shares of 5p each in the capital of the Corporation, 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 17,700,152 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 5p,
- (c) the maximum price which may be paid for a share shall be an amount equal to 105% 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

## 66 Notice of annual general meeting

continued

### 11. General authority to allot shares

THAT

- (a) the directors be generally and unconditionally authorised pursuant to and in accordance with Section 551 of the Act 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 shares in the Corporation or to grant rights to subscribe for or to convert any security into shares in the Corporation up to an aggregate nominal amount (within the meaning of Sections 551(3) and (6) of the Act) of £295,199,
- (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

### 12 Disapplication of statutory pre-emption rights

THAT

- (a) in exercise of the authority given to the directors by resolution 11 above, the directors be empowered pursuant to Section 570 of the Act to allot shares or grant rights to subscribe for or to convert any security into shares in the Corporation 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 £295,199 as if Section 561 of the Act did not apply to such allotment, provided always that no more than 7.5% of the issued share capital shall be issued on a non pre-emptive basis within any three year period,
- (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

### 13 Authority to convene a general meeting – notice

THAT a general meeting of the Corporation, other than an annual general meeting, may be called on not less than 14 clear days' notice

By order of the board

**Law Debenture Corporate Services Limited**

*Secretary*

28 February 2011

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 (or in the case of a corporation, to appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member) A proxy need not be a member of the Corporation Proxy rights do not apply to nominated persons although the nominated person may have a right under an agreement with the registered member to appoint a proxy In addition to instructing a proxy to vote for or against a resolution, the form enables shareholders to instruct a 'vote withheld' if preferred A vote withheld is not a vote in law and will not be counted in the calculation of votes It may be used, for example, to convey a message of dissatisfaction on a particular issue, where the strength of feeling is not so great as to oppose the resolution, but supporting it is not appropriate either
- 2 Shareholders who hold shares on the register of members (as opposed to holding them in a nominee) will find enclosed a form of proxy for use at the meeting To be valid, forms of proxy must be lodged electronically by accessing [www.eproxyappointment.com](http://www.eproxyappointment.com), or by post at the office of the Corporation's registrar, Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol BS99 6ZY CREST members can register votes electronically by using the service provided by Euroclear Proxies must be received not less than 48 hours before the time appointed for the holding of the meeting This is also the voting record date by which a person must be entered on the register in order to have a right to attend and vote at the meeting Lodgement of a form of proxy will not prevent a member from attending and voting in person
- 3 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 20 April 2011 to shareholders on the register on the record date on 18 March 2011
- 5 **Resolution 2** is to receive and approve the directors' remuneration report for the year ended 31 December 2010 The remuneration report is set out at pages 28 to 33 of the annual report of the Corporation
- 6 **Resolution 4** - Douglas McDougall offers himself for re-election The board supports his re-election because he leads the board with skill and considerable success He is highly regarded in the investment trust sector and makes a full contribution to the board, with particular expertise in overseeing investment strategy His biography is included on page 5 of the annual report
- 7 **Resolution 5** - Arnel Cates offers himself for re-election The board supports his re-election because Mr Cates continues to perform well as senior non-executive director as evidenced in his appraisal by the Chairman His extensive knowledge of corporate trusts is valued and he is an informed and expert director of the principal holding company for the independent fiduciary services business His biography is included on page 5 of the annual report
- 8 **Resolution 6** - Caroline Banzky offers herself for re-election The board supports her re-election She continues to be a very effective managing director, improving profitability of the independent fiduciary services business and enhancing shareholder value Her biography is included on page 5 of the annual report
- 9 **Resolution 7** - Professor John Kay offers himself for re-election The board supports his re-election He provides a valuable insight into economic events and trends His biography is included on page 5 of the annual report
- 10 **Resolution 8** is to re-elect Christopher Smith The board supports his re-election He brings a wealth of corporate finance experience to the board along with a thorough knowledge of the investment trust sector and regulatory matters and is an effective audit committee chairman He also chairs with skill the board of the principal holding company for the independent fiduciary services businesses His biography is included on page 5 of the annual report
- 11 **Resolution 9** is to re-appoint BDO LLP as the Corporation's auditors BDO LLP were first appointed on 31 October 2008
- 12 **Special resolution 10** 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 a premium to net asset value
- 13 **Special resolution 11** renews the authority given to directors at the last annual general meeting to allot unissued capital not exceeding 5,903,986 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 Save as You Earn Scheme 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
- 14 **Special resolution 12** is proposed because the directors consider that in order to allot shares in the circumstances described in resolution 11 it is in the best interests of the Corporation and its shareholders to allot a maximum of 5,903,986 shares other than on a pre-emptive basis The board would not, however, issue more than 7.5% of the issued share capital on a non-pre-emptive basis within any three year period
- 15 **Special resolution 13** seeks authority to convene a general meeting (but not the annual general meeting) by giving not less than 14 clear days notice While the directors have no current intention to call a general meeting in the year ahead, circumstances might arise when such a meeting might become necessary and the directors deem it in the best interest of shareholders that it be held as quickly as possible Such circumstances might include, for example, a decision to make a significant amendment to the investment policy (shareholder approval for such a change being a regulatory stipulation)



## • 68 Notes to the notice of annual general meeting

continued

**16 Meeting notice requirements** - the Corporation is required under the Act to make a number of additional disclosures as follows. The Corporation's website – [www.lawdeb.com/investment-trust/investor-information](http://www.lawdeb.com/investment-trust/investor-information) – contains a copy of this notice, which includes the current total voting rights, as set out below. Should the required number of members requisition the Corporation to publish any statement about the audit or related matters that the relevant members propose to raise at the AGM (in accordance with Section 527 of the Act), this would be published at the Corporation's expense on the website and forwarded to the auditor. Similarly, any shareholder statements, resolutions and matters of business connected with the meeting received after publication of this notice will be published on the website subject to compliance by the submitting party with the Act. At the AGM, the Corporation will cause to be answered any question relating to the business being dealt with at the meeting put by a shareholder in attendance.

### **Total voting rights and share information**

The Corporation confirms that it has an issued share capital at 28 February 2011 of 118,079,737 ordinary shares with voting rights and no restrictions and no special rights with regard to control of the Corporation. There are no other classes of share capital and none of the Corporation's issued shares are held in treasury. Therefore the total number of voting rights in The Law Debenture Corporation p l c is 118,079,737.



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