

Law Debenture



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

Investment trust

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

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

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

Trustee and related services

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

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

Highlights

	At 30 June 2006 pence	At 30 June 2005 pence	31 December 2005 pence
Share price	303.50	262.50	288.75
NAV per share	296.65	251.90	289.93
NAV per share after proposed dividend	293.25	248.80	283.98
Earnings per share:			
– Investment trust	3.88	3.38	5.73
– Trustee and related services	2.16	1.87	4.32
Group earnings per share	6.04	5.25	10.05
Dividends per share	3.40	3.10	9.05

Performance to 30 June 2006

	6 months %	12 months %
Share price	5.1	15.6
NAV total return	4.5	21.6
FTSE All-Share Index total return	6.1	19.7

Basis of preparation

The results for the period have been prepared in accordance with International Financial Reporting Standards. There have been no changes to the group's accounting policies during the period.

2 Management commentary

Performance

Over the six months to 30 June 2006, our net asset value total return was 4.5% compared to the FTSE Actuaries All-Share Index total return of 6.1%. The principal reason for this shortfall was a low representation in mining stocks, which were strong over the period.

Our gross revenues increased over the prior half year by 16.0% from £18.0 million to £20.8 million. Profit before taxation was £7.9 million, an increase over the previous period of 15.3% as a result of a 13.4% improvement in the investment trust and an 18.1% improvement in trustee and related services. The investment trust benefited from strong dividend growth and the trustee and related services businesses continued the improved performance of the second half of 2005.

Earnings and dividends

Earnings per ordinary share for the six months to 30 June 2006 were 6.04p, an increase of 15.0%. This rate of increase is unlikely to be sustained in the second half of the year. The policy of the company continues to be to seek growth in both capital and income; the board has declared an interim dividend of 3.4p, which is an increase of 9.7% over the previous interim dividend of 3.1p. Though this rate of increase may not be sustained in the final dividend, it is expected that the final dividend will at least equal that paid in respect of 2005.

The interim dividend is payable on 12 September 2006 to shareholders on the register on 11 August 2006.

Investment Manager's Report

After a strong start to the period, equity markets experienced a setback in May, leaving them little changed from the year end. Investor confidence was undermined by concerns over the prospect of rising inflation and the impact that would have on interest rates, which might cause the global economy to fall into recession. More recently, geopolitical concerns arising out of the Middle East have affected markets.

During the period, effective gearing was reduced from 14% to 7% as good value investment opportunities became more difficult to find. However, the setback in the markets may have created opportunities as the share prices of some companies may have fallen too far. The focus will be on investing in companies that can deliver sound results in a more difficult operating environment.

Trustee and related services

Trustee and related services revenue, excluding rechargeable expenses, increased by 15.4% as a result of continued growth in most areas of the business, arising from high levels of corporate activity. Law Debenture continues to be involved in a wide variety of capital markets transactions. Existing clients have appointed us to new debt issues. Treasury Management has seen a number of new opportunities, particularly as facility agent and escrow agent.

Law Debenture's service of process business is highly regarded and is recognised for its quality of service. Its growth during the period has been driven by the high level of corporate transactions. Our corporate services business has had a good start to the year, continuing to win appointments both in the structured finance market place and more widely in other capital markets transactions. Our pension trustee business has had numerous new business enquiries and several appointments in the first half of the year, including The Royal Mail Pension Plan.

Law Debenture Trust Company of New York achieved significant growth in income and profit. We acted as trustee, exchange agent, paying agent and escrow agent on the second largest high yield bond ever issued in the US, where we continued to generate fees from successor trustee appointments. Hong Kong and The Channel Islands continued to make good progress.

4 Group income statement

for the period ended 30 June 2006 (unaudited)

	30 June 2006			30 June 2005		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
UK dividends	5,338	-	5,338	4,909	-	4,909
UK special dividends	19	-	19	135	-	135
Overseas dividends	1,117	-	1,117	983	-	983
Interest from securities	85	-	85	52	-	52
	6,559	-	6,559	6,079	-	6,079
Bank deposit interest	554	-	554	542	-	542
Trustee and other related fees	13,401	-	13,401	11,279	-	11,279
Other income	324	-	324	63	-	63
Total revenue	20,838	-	20,838	17,963	-	17,963
Net gain on investments held at fair value through the profit or loss account	-	8,092	8,092	-	21,919	21,919
Gross income and capital gains	20,838	8,092	28,930	17,963	21,919	39,882
Cost of sales	(4,522)	-	(4,522)	(3,365)	-	(3,365)
Administrative expenses	(7,153)	(91)	(7,244)	(6,491)	(133)	(6,624)
Operating profit	9,163	8,001	17,164	8,107	21,786	29,893
Finance costs						
Interest payable	(1,229)	-	(1,229)	(1,226)	-	(1,226)
Profit before taxation	7,934	8,001	15,935	6,881	21,786	28,667
Taxation	(868)	-	(868)	(733)	-	(733)
Profit for period	7,066	8,001	15,067	6,148	21,786	27,934
Return per ordinary share (pence)			12.87			23.85
Diluted return per ordinary share (pence)			12.87			23.85

A special dividend of £458,000 included as revenue in the 2005 interim report has been restated as capital to be consistent with the year end financial statements.

Statement of total recognised income and expense

for the period ended 30 June 2006 (unaudited)

	30 June 2006			30 June 2005		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit for the period	7,066	8,001	15,067	6,148	21,786	27,934
Foreign exchange	(197)	-	(197)	27	-	27
Total income and expense relating to the period	6,869	8,001	14,870	6,175	21,786	27,961

	30 June 2006 (unaudited) £000	30 June 2005 (unaudited) £000	31 December 2005 (audited) £000
Assets			
Non current assets			
Property, plant and equipment	711	808	739
Intangible assets	94	147	113
Investments held at fair value through profit or loss	366,430	330,380	380,747
Other assets	–	5	5
Deferred tax assets	1,644	2,208	2,106
Total non current assets	368,879	333,548	383,710
Current assets			
Trade and other receivables	7,327	6,835	7,368
Other accrued income and prepaid expenses	2,262	2,549	2,419
Other current assets	–	10	46
Cash and cash equivalents	33,747	20,002	19,295
Total current assets	43,336	29,396	29,128
Total assets	412,215	362,944	412,838
Current liabilities			
Trade and other payables	7,351	7,346	7,912
Short term borrowings	11	144	5,696
Corporation tax payable	318	613	548
Other taxation including social security	440	165	433
Deferred income	4,379	4,508	4,326
Total current liabilities	12,499	12,776	18,915
Non current liabilities			
Long term borrowings	39,243	39,216	39,230
Retirement benefit obligations	4,828	7,348	6,443
Deferred income	8,359	8,537	8,626
Total non current liabilities	52,430	55,101	54,299
Total net assets	347,286	295,067	339,624

6 Cash flow statement

for the period ended 30 June 2006 (unaudited)

	30 June 2006 £000	31 December 2005 £000	30 June 2005 £000
Operating activities			
Cash generated from operating activities	8,644	14,948	7,442
Taxation	(517)	(1,315)	(726)
Interest paid	(1,229)	(2,471)	(1,226)
Pension special contribution	(1,615)	(885)	–
Operating cash flow	5,283	10,277	5,490
Investing activities			
Capital expenditure	(42)	(46)	(19)
Expenditure on intangible assets	(9)	(4)	(4)
Purchase of investments	(17,416)	(71,592)	(29,144)
Sale of investments	39,734	59,508	24,727
Other movements	18	37	–
Cash flow from investing activities	22,285	(12,097)	(4,440)
Financing activities			
Dividends paid	(6,963)	(9,196)	(5,571)
Proceeds of increase in share capital	92	212	199
Purchase of own shares	(363)	(36)	(36)
Net cash flow from financing activities	(7,234)	(9,020)	(5,408)
Net increase/(decrease) in cash and cash equivalents	20,334	(10,840)	(4,358)
Cash and cash equivalents at beginning of period	13,599	24,189	24,189
Exchange gains/(losses) on cash and cash equivalents	(197)	250	27
Cash and cash equivalents at end of period	33,736	13,599	19,858
Cash and cash equivalents comprise			
Cash and cash equivalents at end of period	33,747	19,295	20,002
Bank loans and overdrafts	(11)	(5,696)	(144)
	33,736	13,599	19,858

By geographical location

	United Kingdom £000	North America £000	Europe £000	Japan £000	Pacific £000	Total £000
Investments 31 December 2005	273,882	23,866	37,709	19,633	25,657	380,747
Purchases	13,529	623	3,264	–	–	17,416
Cost of acquisition	(84)	(1)	(6)	–	–	(91)
Sales proceeds	(27,215)	(9,008)	(3,511)	–	–	(39,734)
Appreciation/(depreciation)	8,283	(1,859)	3,145	(1,242)	(235)	8,092
Valuation at 30 June 2006	268,395	13,621	40,601	18,391	25,422	366,430
Per cent of total	73.3	3.7	11.1	5.0	6.9	100.0

By sector

	As at 30 June 2006 %	As at 31 December 2005 %
Oil & gas	9.5	9.5
Basic materials	3.3	5.0
Industrials	16.2	14.1
Consumer goods	11.3	11.0
Health care	6.7	6.3
Consumer services	12.4	13.5
Telecommunications	3.7	4.4
Utilities	3.2	3.1
Financials	33.5	32.1
Technology	0.2	1.0
	100.0	100.0

Statement of changes in equity

	Share capital £000	Share premium £000	Own shares £000
Equity at 1 January 2006	5,882	7,231	(963)
Net profit	-	-	-
Foreign exchange	-	-	-
Total income and expenditure	-	-	-
Movement in own shares	-	-	(363)
Issue of shares	2	90	-
Dividend relating to 2005	-	-	-
Share based payment	-	-	-
Total equity shareholders' funds at 30 June 2006	5,884	7,321	(1,326)

Segmental analysis

	30 June 2006 £000	30 June 2005 £000	Investment trust 31 December 2005 £000
Segment revenue	6,559	6,079	11,002
Segmental costs			
Cost of sales	-	-	-
Administration costs	(925)	(868)	(1,684)
	5,634	5,211	9,318
Interest (net)	(979)	(1,107)	(2,411)
Profit for the period before taxation	4,655	4,104	6,907
Taxation	(119)	(143)	(197)
Profit for the period	4,536	3,961	6,710
Return per ordinary share (pence)	3.88	3.38	5.73

Capital redemption £000	Share based payment £000	Foreign exchange £000	Capital reserves £000	Retained earnings £000	Total £000
8	114	73	309,075	18,204	339,624
-	-	-	8,001	7,066	15,067
-	-	(197)	-	-	(197)
-	-	(197)	8,001	7,066	14,870
-	-	-	-	-	(363)
-	-	-	-	-	92
-	-	-	-	(6,963)	(6,963)
-	26	-	-	-	26
8	140	(124)	317,076	18,307	347,286

30 June 2006 £000	Trustee and related services		30 June 2006 £000	Total	
	30 June 2005 £000	31 December 2005 £000		30 June 2005 £000	31 December 2005 £000
13,725	11,342	23,254	20,284	17,421	34,256
(4,522)	(3,365)	(6,994)	(4,522)	(3,365)	(6,994)
(6,228)	(5,623)	(10,998)	(7,153)	(6,491)	(12,682)
2,975	2,354	5,262	8,609	7,565	14,580
304	423	1,008	(675)	(684)	(1,403)
3,279	2,777	6,270	7,934	6,881	13,177
(749)	(590)	(1,207)	(868)	(733)	(1,404)
2,530	2,187	5,063	7,066	6,148	11,773
2.16	1.87	4.32	6.04	5.25	10.05

10 Portfolio valuation

as at 30 June 2006

UK unless otherwise stated.

Holdings in italics were acquired after 31 December 2005.

	£000	%		£000	%
Oil & gas			General industrials		
Oil & gas producers			Morgan Crucible	2,551	0.70
BP	16,380	4.47	Tomkins	2,435	0.66
Royal Dutch Shell	10,855	2.96		4,986	1.36
BG	4,335	1.18	Electronic & electrical equipment		
Total (Fra)	2,540	0.69	TT Electronics	2,715	0.74
	34,110	9.30	General Electric (USA)	890	0.24
Oil equipment & services			<i>Abacus</i>	363	0.10
Williams (USA)	732	0.20		3,968	1.08
	732	0.20	Industrial engineering		
Basic materials			Senior	3,938	1.07
Chemicals			Weir Group	1,732	0.47
BOC	3,162	0.86	Renold	1,230	0.34
ICI	2,541	0.69		6,900	1.88
Asahi Kasei (Japan)	1,413	0.39	Industrial transportation		
Praxair (USA)	1,168	0.32	Kuehne & Nagel (Switz)	1,964	0.54
	8,284	2.26	BAA	1,586	0.43
Forestry & paper			Wincanton	1,475	0.40
Smith (DS)	1,800	0.49	<i>Autologic</i>	773	0.21
	1,800	0.49	Textron (USA)	748	0.20
Mining				6,546	1.78
BHP Billiton	2,098	0.57	Support services		
	2,098	0.57	Alfred McAlpine	7,393	2.02
Industrials			Interserve	2,850	0.78
Construction & materials			Laing (John)	2,486	0.68
ACS Actividades Construcción (Spain)	3,377	0.92	Johnson Service	2,022	0.55
Hanson	2,624	0.72	Deutsche Post (Ger)	1,956	0.53
CRH (Ireland)	1,757	0.48	<i>Sodexo Alliance (Fra)</i>	1,299	0.35
Travis Perkins	1,511	0.41		18,006	4.91
Marshalls	775	0.21	Consumer goods		
<i>Balfour Beatty</i>	343	0.09	Automobiles & parts		
	10,387	2.83	GKN	2,048	0.56
Aerospace & defence			Toyota Motor (Japan)	1,983	0.54
Rolls Royce	4,140	1.13		4,031	1.10
Smiths	2,670	0.73			
<i>Meggitt</i>	1,916	0.52			
	8,726	2.38			

	£000	%
Beverages		
Diageo	4,363	1.19
Scottish & Newcastle	2,549	0.70
Pepsico (USA)	1,136	0.31
Pernod-Ricard (Fra)	558	0.15
	8,606	2.35
Food producers		
Unilever	2,734	0.75
Nestlé (Switz)	2,270	0.62
Uniq	2,265	0.62
Cadbury Schweppes	1,903	0.52
Premier Foods	1,742	0.48
<i>Dairy Crest</i>	1,007	0.27
	11,921	3.26
Household goods		
Reckitt Benckiser	3,027	0.83
Redrow	1,490	0.41
Essilor (Fra)	1,098	0.30
Alba	1,035	0.28
Nike (USA)	937	0.26
	7,587	2.08
Tobacco		
British American Tobacco	6,674	1.82
Gallaher	2,449	0.67
	9,123	2.49
Health care		
Health care equipment & services		
Fresenius (Ger)	3,660	1.00
Smith & Nephew	1,955	0.53
Medtronic (USA)	896	0.24
Abbott Laboratories (USA)	712	0.19
	7,223	1.96
Pharmaceuticals & biotechnology		
GlaxoSmithKline	11,023	3.01
Novartis (Switz)	2,026	0.55
Shire	1,578	0.43
<i>Sanofi-Aventis (Fra)</i>	1,054	0.29
Wyeth (USA)	720	0.20
Astellas Pharma (Japan)	695	0.20
	17,096	4.68

	£000	%
Consumer services		
Food & drug retailers		
Tesco	4,008	1.09
	4,008	1.09
General retailers		
GUS	2,906	0.79
Findel	2,832	0.77
Inditex (Spain)	2,541	0.69
Boots	1,242	0.34
Federated Department Store (USA)	871	0.24
Lawson (Japan)	789	0.22
Shoppers Drug (Canada)	689	0.19
	11,870	3.24
Media		
EMI	3,035	0.83
Reuters	2,498	0.68
Reed Elsevier	2,400	0.66
Pearson	1,838	0.50
BSkyB	1,721	0.47
Johnston Press	1,658	0.45
Toppan Printing (Japan)	1,102	0.30
	14,252	3.89
Travel & leisure		
Greene King	3,948	1.08
Go-Ahead	2,949	0.80
Ryanair (Ireland)	1,693	0.46
Ladbrokes	1,409	0.39
Intercontinental Hotels	1,190	0.32
Carnival	1,187	0.32
Avis Europe	1,052	0.29
Compass	1,049	0.29
Carnival (USA)	818	0.22
Mytravel	35	0.01
Mytravel Warrants	3	–
	15,333	4.18
Telecommunications		
Fixed line telecommunications		
BT	3,107	0.85
Colt Telecom 7.625% 15 DEC 2009	1,417	0.39
Cable & Wireless	1,142	0.31
Colt Telecom 7.625% 31 JUL 2008	881	0.24
	6,547	1.79

12 Portfolio valuation

continued

	£000	%
Mobile telecommunications		
Vodafone	6,325	1.73
Inmarsat	556	0.15
	6,881	1.88
Utilities		
Electricity		
Scottish & Southern Energy	2,302	0.63
Scottish Power	1,432	0.39
Exelon (USA)	922	0.25
	4,656	1.27
Gas, water & multiutilities		
Severn Trent	2,691	0.73
United Utilities	2,640	0.72
National Grid	1,896	0.52
	7,227	1.97
Financials		
Banks		
HSBC	10,439	2.85
Royal Bank of Scotland	7,290	1.99
Barclays	6,754	1.84
HBOS	5,825	1.59
Lloyds TSB	4,775	1.30
BNP Paribas (Fra)	2,732	0.75
Alliance & Leicester	2,444	0.67
Standard Chartered	2,371	0.65
Deutsche Postbank (Ger)	2,150	0.59
Fortis (Neth)	2,027	0.55
ABN Amro (Neth)	1,597	0.44
	48,404	13.22
Nonlife insurance		
Hiscox	2,767	0.76
Jardine Lloyd Thompson	2,046	0.56
<i>Amlin</i>	2,004	0.55
Wellington Underwriting	1,566	0.43
	8,383	2.30

	£000	%
Life insurance/assurance		
Aviva	3,139	0.86
Old Mutual	2,608	0.71
Prudential	2,391	0.65
Friends Provident	2,327	0.64
Legal & General	2,304	0.63
	12,769	3.49
Real estate		
Hammerson	2,953	0.81
Land Securities	2,685	0.73
Unibail (Fra)	2,680	0.73
Slough Estates	1,828	0.50
CB Richard Ellis (USA)	808	0.22
	10,954	2.99
General financial		
Provident Financial	1,842	0.50
Deutsche Börse (Ger)	1,579	0.43
American Express (USA)	691	0.19
	4,112	1.12
Equity investment instruments		
Henderson Asia Pacific Capital		
Growth (Pacific)	25,422	6.94
Henderson Japan Capital		
Growth (Japan)	12,409	3.39
	37,831	10.33
Technology		
Software & computer services		
Microsoft (USA)	883	0.24
	883	0.24

1. These are not statutory accounts in terms of section 240 of the Companies Act 1985 and are unaudited. The figures and financial information for the year end 31 December 2005 have been extracted from the 2005 report and accounts, which have been filed with the Registrar of Companies. Those accounts included an unqualified auditors' report and did not contain a statement under section 237 of the Companies Act 1985.
2. The calculations of NAV and earnings per share are based on:
NAV: shares in issue at end of the period 117,069,433 (2005: 117,119,556)
Income: average shares in issue during the period 117,076,110 (2005: 117,134,669)

