

Law Debenture

Half Yearly Report 2012



The Law Debenture Corporation p.l.c.

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 six 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.

Independent fiduciary services

We are a leading provider of independent fiduciary services. Our activities are corporate trusts, treasury and agency solutions, 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.

Registered office

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(Registered in England – No. 30397)

Highlights

	30 June 2012 pence	30 June 2011 pence	31 December 2011 pence
Share price	376.00	372.80	333.50
NAV per share after proposed dividend	348.31	361.86	323.75
Net revenue return per share:			
- Investment trust	4.78	5.03	8.27
- Independent fiduciary services	3.45	3.55	7.25
Group net revenue return per share	8.23	8.58	15.52
Capital return per share	21.22	15.05	(19.07)
Dividends per share	4.50	4.50	13.50

Performance to 30 June 2012

	6 months %	12 months %
Share price total return ¹	15.5	4.6
NAV total return ¹	8.7	0.1
FTSE Actuaries All-Share Index total return	3.3	(3.1)

¹Including reinvestment of dividends.

Basis of preparation

The results for the period have been prepared in accordance with International Financial Reporting Standards (IAS 34 – Interim financial reporting).

There have been no changes to the group's accounting policies during the period.

2 Half yearly management report

Performance

Our net asset value total return for the six months to 30 June 2012 was 8.7%, compared to a total return of 3.3% for the FTSE Actuaries All-Share Index. Net revenue per share was 8.23p, a decrease of 4.1% over the corresponding period last year, as a result of a 5.0% decrease in the investment trust and a 2.8% decrease in independent fiduciary services.

Dividend

The board has declared an interim dividend of 4.5p (2011: 4.5p). The dividend will be paid on 13 September 2012 to holders on the record date of 10 August 2012. The current expectation of the directors is that the final dividend will be maintained.

Investment trust

Equity markets have been volatile but ultimately changed little during the first six months of the year. The debate still rages between investors who focus on the macro economic worries and those who look at the reasonable valuations of companies that are producing good results.

In these market conditions, there are opportunities to be taken. Among the best relative contributors to the portfolio in the first six months of the year were two technology based companies, IP Group and BTG. Part of the attraction for investors in these stocks is that they are not closely connected with the economic cycle. It has been stocks that are perceived to have cyclical risk that have detracted from performance. Weir Group would be an example.

Good industrial companies producing competitive products will come through the economic turbulence. Global trade is set to keep growing in spite of a slowing in world economic growth and the strong companies will benefit.

Outlook

Dividend cover in the stocks held in the portfolio is at historically high levels and further dividend growth is anticipated. The gearing in the companies is low as they continue to be cash generative. We are not using gearing in the investment trust as uncertainties about the eurozone and debt problems continue to persist. The resolution of these difficulties is not in sight. However, when appropriate, we will consider increasing our exposure to equities.

Independent fiduciary services

Revenues, net of cost of sales, which represent legal costs recharged to clients, increased by 2.0% and while costs continued to be tightly controlled, profit before taxation decreased by 0.2%. New appointments in financial wholesale markets remain at relatively low levels with no sign of any improvement in the corporate bond and securitisation markets. The outlook in global financial markets remains uncertain, particularly in Europe, but we continue to look for new opportunities and control our costs.

	30 June 2012			30 June 2011		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
UK dividends	6,104	–	6,104	6,580	–	6,580
UK special dividends	181	–	181	–	–	–
Overseas dividends	1,221	–	1,221	1,185	–	1,185
Overseas special dividends	48	–	48	51	–	51
Interest from securities	334	–	334	222	–	222
	7,888	–	7,888	8,038	–	8,038
Interest income	42	–	42	52	–	52
Independent fiduciary services fees	14,904	–	14,904	14,416	–	14,416
Other income	58	–	58	175	–	175
Total income	22,892	–	22,892	22,681	–	22,681
Net gain on investments held at fair value through profit or loss	–	25,031	25,031	–	17,744	17,744
Gross income and capital gains	22,892	25,031	47,923	22,681	17,744	40,425
Cost of sales	(1,800)	–	(1,800)	(1,615)	–	(1,615)
Administrative expenses	(9,314)	(83)	(9,397)	(8,874)	(64)	(8,938)
Operating profit	11,778	24,948	36,726	12,192	17,680	29,872
Finance costs						
Interest payable	(1,225)	–	(1,225)	(1,225)	–	(1,225)
Profit before taxation	10,553	24,948	35,501	10,967	17,680	28,647
Taxation	(876)	–	(876)	(894)	–	(894)
Profit for period	9,677	24,948	34,625	10,073	17,680	27,753
Return per ordinary share (pence)	8.23	21.22	29.45	8.58	15.05	23.63
Diluted return per ordinary share (pence)	8.23	21.21	29.44	8.57	15.04	23.61

Statement of comprehensive income

for the six months ended 30 June 2012 (unaudited)

	30 June 2012			30 June 2011		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit for the period	9,677	24,948	34,625	10,073	17,680	27,753
Other comprehensive income						
Foreign exchange	–	(29)	(29)	–	(109)	(109)
Total comprehensive income for the period	9,677	24,919	34,596	10,073	17,571	27,644

4 Group statement of financial position

	30 June 2012 (unaudited) £000	30 June 2011 (unaudited) £000	31 December 2011 (audited) £000
Assets			
Non current assets			
Goodwill	2,210	2,191	2,218
Property, plant and equipment	300	214	320
Other intangible assets	429	85	199
Investments held at fair value through profit or loss	446,857	459,133	423,044
Deferred tax assets	1,223	662	1,416
Total non current assets	451,019	462,285	427,197
Current assets			
Trade and other receivables	5,113	4,989	4,940
Other accrued income and prepaid expenses	6,473	5,502	6,246
Cash and cash equivalents	16,381	19,300	18,063
Total current assets	27,967	29,791	29,249
Total assets	478,986	492,076	456,446
Current liabilities			
Trade and other payables	10,585	10,818	11,674
Corporation tax payable	783	1,109	1,293
Other taxation including social security	623	622	559
Deferred income	4,184	3,848	3,902
Total current liabilities	16,175	16,397	17,428
Non current liabilities and deferred income			
Long term borrowings	39,404	39,378	39,391
Retirement benefit obligations	2,823	561	3,138
Deferred income	5,765	5,433	5,563
Total non current liabilities	47,992	45,372	48,092
Total net assets	414,819	430,307	390,926
Equity			
Called up share capital	5,905	5,904	5,905
Share premium	8,106	8,070	8,106
Capital redemption	8	8	8
Share based payments	201	201	201
Own shares	(1,805)	(1,717)	(1,684)
Capital reserves	371,216	386,346	346,268
Retained earnings	30,704	31,082	31,609
Translation reserve	484	413	513
Total equity	414,819	430,307	390,926

	30 June 2012 (unaudited) £000	30 June 2011 (unaudited) £000	31 December 2011 (audited) £000
Operating activities			
Operating profit before interest payable and taxation	36,726	29,872	260
(Gains)/losses on investments	(24,948)	(17,680)	22,398
Foreign exchange	8	20	(12)
Depreciation of property, plant and equipment	56	63	164
Amortisation of intangible assets	109	33	76
(Increase)/decrease in receivables	(400)	37	(658)
(Decrease)/increase in payables	(528)	(548)	442
Transfer to/(from) capital reserves	529	(40)	126
Normal pension contributions in excess of cost	(315)	(315)	(883)
Cash generated from operating activities	11,237	11,442	21,913
Taxation	(1,193)	(695)	(1,548)
Interest paid	(1,225)	(1,225)	(2,450)
Operating cash flow	8,819	9,522	17,915
Investing activities			
Acquisition of property, plant and equipment	(36)	(87)	(289)
Expenditure on intangible assets	(339)	–	(157)
Purchase of investments	(20,504)	(20,403)	(96,508)
Sale of investments	21,120	20,272	92,275
Cash flow from investing activities	241	(218)	(4,679)
Financing activities			
Dividends paid	(10,582)	(9,984)	(15,270)
Proceeds of increase in share capital	–	4	41
Purchase of own shares	(121)	77	110
Net cash flow from financing activities	(10,703)	(9,903)	(15,119)
Net (decrease) in cash and cash equivalents	(1,643)	(599)	(1,883)
Cash and cash equivalents at beginning of period	18,063	19,953	19,953
Foreign exchange (losses) on cash and cash equivalents	(39)	(54)	(7)
Cash and cash equivalents at end of period	16,381	19,300	18,063
Cash and cash equivalents comprise			
Cash and cash equivalents	16,381	19,300	18,063

Group statement of changes in equity

	Share capital £000	Share premium £000	Own shares £000
Equity at 1 January 2012	5,905	8,106	(1,684)
Net profit	–	–	–
Other comprehensive income:			
Foreign exchange	–	–	–
Total comprehensive income for the period	–	–	–
Issue of shares	–	–	–
Movement in own shares	–	–	(121)
Dividend relating to 2011	–	–	–
Total equity at 30 June 2012	5,905	8,106	(1,805)

Group segmental analysis

	Investment trust		
	30 June 2012 £000	30 June 2011 £000	31 December 2011 £000
Revenue			
Segment income	7,888	8,038	14,126
Other income	–	71	76
Cost of sales	–	–	–
Administration costs	(993)	(958)	(1,915)
	6,895	7,151	12,287
Interest (net)	(1,279)	(1,245)	(2,566)
Return, including profit on ordinary activities before taxation	5,616	5,906	9,721
Taxation	–	–	–
Return, including profit attributable to shareholders	5,616	5,906	9,721
Revenue return per ordinary share (pence)	4.78	5.03	8.27
Assets	454,766	468,162	434,325
Liabilities	(55,424)	(53,635)	(57,233)
Total net assets	399,342	414,527	377,092

The capital element of the income statement is wholly attributable to the investment trust.

Capital redemption £000	Share based payments £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
8	201	513	346,268	31,609	390,926
–	–	–	24,948	9,677	34,625
–	–	(29)	–	–	(29)
–	–	(29)	24,948	9,677	34,596
–	–	–	–	–	–
–	–	–	–	–	(121)
–	–	–	–	(10,582)	(10,582)
8	201	484	371,216	30,704	414,819

Independent fiduciary services			Total		
30 June 2012 £000	30 June 2011 £000	31 December 2011 £000	30 June 2012 £000	30 June 2011 £000	31 December 2011 £000
14,904	14,416	30,948	22,792	22,454	45,074
58	104	18	58	175	94
(1,800)	(1,615)	(4,313)	(1,800)	(1,615)	(4,313)
(8,321)	(7,916)	(16,728)	(9,314)	(8,874)	(18,643)
4,841	4,989	9,925	11,736	12,140	22,212
96	72	562	(1,183)	(1,173)	(2,004)
4,937	5,061	10,487	10,553	10,967	20,208
(876)	(894)	(1,977)	(876)	(894)	(1,977)
4,061	4,167	8,510	9,677	10,073	18,231
3.45	3.55	7.25	8.23	8.58	15.52
24,220	23,914	22,121	478,986	492,076	456,446
(8,743)	(8,134)	(8,287)	(64,167)	(61,769)	(65,520)
15,477	15,780	13,834	414,819	430,307	390,926

8 Analysis of the investment portfolio

By geographical location

	Valuation 31 December 2011 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation/ (depreciation) £000	Valuation 30 June 2012 £000	%
United Kingdom	274,705	14,641	(65)	(7,737)	18,983	300,527	67.2
North America	27,859	4,639	(7)	–	1,697	34,188	7.7
Europe	31,263	1,224	(1)	(1,774)	1,303	32,015	7.2
Japan	12,753	–	–	–	643	13,396	3.0
Other Pacific	31,973	–	–	(2,807)	2,528	31,694	7.1
UK Gilts	44,491	–	–	(8,802)	(652)	35,037	7.8
	423,044	20,504	(73)	(21,120)	24,502	446,857	100.0

By sector (excluding cash)

	As at 30 June 2012 %	As at 31 December 2011 %
Oil & gas	10.2	10.2
Basic materials	3.8	3.8
Industrials	22.0	21.5
Consumer goods	10.9	10.8
Health care	8.3	7.8
Consumer services	5.9	6.2
Telecommunications	1.9	2.5
Utilities	4.6	4.6
Financials	11.3	9.6
Technology	2.7	1.4
Pooled equity investments	10.6	11.1
UK Gilts	7.8	10.5
	100.0	100.0

UK unless otherwise stated

Holdings in italics were acquired after 31 December 2011

	£000	%
Oil & gas		
Oil & gas producers		
BP	11,180	2.50
Royal Dutch Shell	11,125	2.49
BG	4,550	1.02
Total (Fra)	1,764	0.39
<i>Premier Oil</i>	1,690	0.38
	30,309	6.78
Oil equipment & services		
Gibson Energy (Can)	4,076	0.91
Cape	3,686	0.82
Schlumberger (USA)	3,311	0.74
National Oilwell Varco (USA)	2,054	0.46
Saipem (Ita)	1,096	0.25
<i>AMEC</i>	1,002	0.22
	15,225	3.40
Basic materials		
Chemicals		
Croda	3,958	0.89
Brenntag (Ger)	864	0.19
	4,822	1.08
Forestry & paper		
Mondi	2,720	0.61
	2,720	0.61
Mining		
Rio Tinto	6,793	1.52
BHP Billiton	2,709	0.61
	9,502	2.13
Industrials		
Construction & materials		
Balfour Beatty	3,619	0.81
Marshalls	557	0.12
	4,176	0.93

	£000	%
Aerospace & defence		
Senior	15,107	3.38
Meggitt	5,393	1.21
BAE Systems	5,195	1.16
Rolls Royce	5,145	1.15
Hampson Industries	3	–
	30,843	6.90
General industrials		
Smith (DS)	6,578	1.47
	6,578	1.47
Electronic & electrical equipment		
Morgan Crucible	5,564	1.25
Spectris	4,587	1.03
Applied Materials (USA)	3,648	0.81
TT Electronics	2,193	0.49
Legrand (Fra)	706	0.16
	16,698	3.74
Industrial engineering		
Hill & Smith	5,872	1.31
Cummins (USA)	4,324	0.97
Weir Group	3,825	0.86
Caterpillar (USA)	2,165	0.48
Renold	1,463	0.33
IMI	831	0.19
Severfield-Rowen	375	0.08
	18,855	4.22
Industrial transportation		
Kuehne & Nagel (Swi)	929	0.21
Goldenport	469	0.11
Autologic	304	0.07
Wincanton	196	0.04
	1,898	0.43

	£000	%
Support services		
Interserve	5,959	1.33
Carillion	3,446	0.77
Babcock	2,132	0.48
SGS (Swi)	1,853	0.41
Deutsche Post (Ger)	1,635	0.37
Sodexo (Fra)	1,191	0.27
Johnson Service	1,058	0.24
Adecco (Swi)	857	0.19
DKSH (Swi)	605	0.14
Augean	351	0.08
	19,087	4.28
Consumer goods		
Automobiles & parts		
GKN	8,342	1.87
Toyota Motor (Jap)	1,748	0.39
	10,090	2.26
Beverages		
Diageo	6,236	1.40
Pernod-Ricard (Fra)	870	0.19
	7,106	1.59
Food producers		
Unilever	3,752	0.84
Associated British Foods	3,202	0.72
Nestlé (Swi)	3,033	0.68
	9,987	2.24
Household goods & home construction		
Bellway	3,744	0.84
Redrow	2,673	0.60
Reckitt Benckiser	2,524	0.56
Essilor (Fra)	1,035	0.23
L'Oreal (Fra)	821	0.18
	10,797	2.41
Tobacco		
British American Tobacco	5,673	1.27
Imperial Tobacco	3,682	0.82
Swedish Match (Swe)	1,269	0.28
	10,624	2.37

	£000	%
Health care		
Health care equipment & services		
Becton Dickinson (USA)	3,573	0.80
Fresenius (Ger)	3,049	0.68
Smith & Nephew	2,994	0.67
Fresenius Medical Care (Ger)	1,758	0.39
	11,374	2.54
Pharmaceuticals & biotechnology		
GlaxoSmithKline	10,853	2.43
BTG	7,544	1.69
Novartis (Swi)	2,474	0.55
AstraZeneca	2,138	0.48
Pfizer (USA)	1,465	0.33
Roche (Swi)	1,433	0.32
	25,907	5.80
Consumer services		
Food & drug retailers		
Tesco	2,325	0.52
	2,325	0.52
General retailers		
Dunelm	4,382	0.98
Inditex (Spa)	1,307	0.29
Findel	477	0.11
Topps Tiles	291	0.07
	6,457	1.45
Media		
Reed Elsevier	3,836	0.86
Pearson	3,479	0.78
British Sky Broadcasting	1,741	0.39
Daily Mail & General Trust	1,480	0.33
Yell	19	–
	10,555	2.36
Travel & leisure		
Greene King	3,468	0.77
Marstons	2,128	0.48
International Consolidated Airlines	1,315	0.29
	6,911	1.54

	£000	%
Telecommunications		
Fixed line telecommunications		
BT	2,536	0.57
	2,536	0.57
Mobile telecommunications		
Vodafone	3,585	0.80
Inmarsat	1,783	0.40
Ericsson (Swe)	778	0.17
	6,146	1.37
Utilities		
Electricity		
SSE	4,173	0.93
SSE 5.75% 05/02/14	2,491	0.56
Iberdrola (Spa)	489	0.11
	7,153	1.60
Gas, water & multiutilities		
National Grid 6.125% 15/04/14	5,745	1.29
National Grid	4,120	0.92
Severn Trent	3,359	0.75
Centrica	318	0.07
	13,542	3.03
Financials		
Banks		
HSBC	7,294	1.63
	7,294	1.63
Nonlife insurance		
Amlin	7,779	1.74
Hiscox	5,769	1.29
Hardy Underwriting Bermuda	510	0.11
	14,058	3.14
Life insurance/assurance		
Prudential	2,212	0.50
Aviva	2,140	0.48
Chesnara	1,715	0.38
Irish Life & Permanent (Ire)	8	–
	6,075	1.36

	£000	%
Real estate investments & services		
St Modwen Properties	1,685	0.38
	1,685	0.38
Real estate investment trusts		
Mucklow (A&J) Group	2,940	0.66
Land Securities	2,375	0.53
	5,315	1.19
Financial services		
IP Group	7,485	1.68
Provident Financial	3,341	0.75
International Personal Finance	2,989	0.67
3i	986	0.22
Deutsche Börse (Ger)	826	0.18
	15,627	3.50
Equity investment instruments		
Henderson Japan Capital Growth	11,648	2.61
Henderson Asia Pacific		
Capital Growth	10,717	2.40
Baillie Gifford Pacific	9,344	2.09
First State Asia Pacific	8,391	1.88
Herald Investment Trust	4,071	0.91
Scottish Oriental Smaller		
Company Trust	3,242	0.73
	47,413	10.62
Technology		
Software & computer services		
Microsoft (USA)	5,849	1.31
Amadeus IT (Spa)	1,322	0.30
Sage	971	0.22
	8,142	1.83
Technology hardware & equipment		
Apple (USA)	3,723	0.83
	3,723	0.83
UK Gilts		
UK Treasury 4.5% 07/03/13	20,059	4.49
UK Treasury 2.25% 07/03/14	14,978	3.35
	35,037	7.84

Principal risks and uncertainties

The principal risks of the Corporation relate to the investment activities and include market price risk, foreign currency risk, liquidity risk, interest rate risk and credit risk. These are explained in the notes to the annual accounts. In the view of the board these risks are as applicable to the remaining six months of the financial year as they were to the period under review.

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.

Related party transactions

There have been no related party transactions during the period which have materially affected the financial position or performance of the group. During the period transactions between the Corporation and its subsidiaries have been eliminated on consolidation. Details of related party transactions are given in the notes to the annual accounts.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the half yearly report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period.

On behalf of the board

Douglas McDougall

24 July 2012

Notes

1. The financial information presented herein does not amount to full statutory accounts within the meaning of Section 435 of the Companies Act 2006 and has neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. The annual report and financial statements for 2011 have been filed with the Registrar of Companies. The independent auditors' report on the annual report and financial statements for 2011 was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.
2. The calculations of NAV and earnings per share are based on:

NAV: shares at end of the period 117,575,226 (30 June 2011: 117,454,638) (31 December 2011: 117,482,050).

Income: average shares during the period 117,565,430 (30 June 2011: 117,449,590) (31 December 2011: 117,459,408).

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