Annual Report 2004

Law Debenture

The Law Debenture Corporation p.l.c.

Contents

Law Debenture worldwide

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.

The Law Debenture Corporation p.l.c. is an independently run investment company whose portfolio investments are 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, 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.

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	**2004**
Total assets less current liabilities (£m)	146.3	181.4	228.1	244.3	259.7	338.2	340.9	308.7	248.2	290.1	**320.9**
Group revenue (£m)	12.6	14.2	15.9	17.1	17.9	18.6	21.1	21.2	22.5	23.4	**25.6**
Total return* (pence)	(6.6)	30.1	20.5	41.5	20.8	38.9	12.9	(22.7)	(43.8)	42.8	**34.6**
Earnings* (pence)	4.70	5.36	6.60	7.20	7.34	7.70	7.85	7.05	6.33	6.91	**8.62**
Dividends* (pence)	4.10	4.45	5.00	5.70	6.20	6.60	6.80	6.90	6.90	6.90	**7.55**
NAV* (pence)	122.7	148.9	164.4	199.8	214.2	246.5	252.6	222.9	170.5	206.1	**233.0**
Share price* (pence)	146.2	188.4	186.2	222.0	214.3	233.6	239.6	233.5	192.5	221.75	**232.5**
Premium/(discount) (%)	19.2	26.6	13.3	11.1	–	(5.2)	(5.1)	4.7	12.9	7.6	**(0.2)**
Market capitalisation (£m)	165.8	214.4	215.5	258.5	249.9	272.6	279.4	272.7	225.3	260.0	**273.2**
Cost of running investment trust (% of average portfolio value)	0.45	0.46	0.43	0.39	0.42	0.46	0.47	0.53	0.56	0.55	**0.52**

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

Highlights

	31 December 2004 pence	31 December 2003 pence	Change %
Share price	**232.50**	221.75	4.8
NAV per share	**233.01**	206.10	13.1
Earnings per share			
– investment trust	**5.06**	4.51	12.2
– trustee and related services	**3.56**	2.40	48.3
Group earnings per share	**8.62**	6.91	24.7
Dividends per share	**7.55**	6.90	9.4

Performance

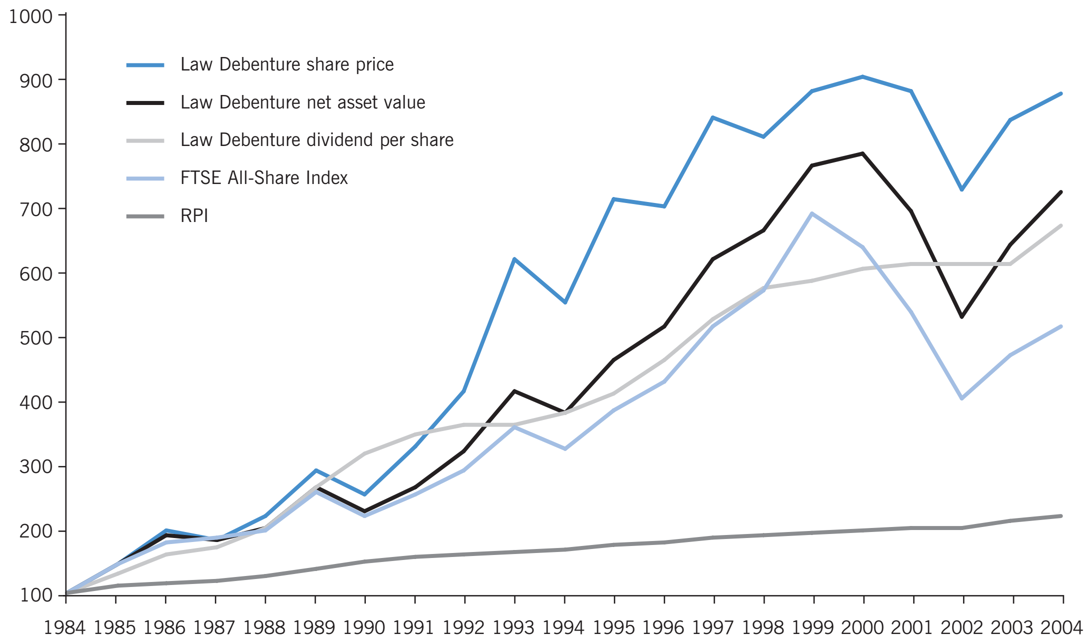
	2004 %	2003 %
Share price	**4.8**	15.2
NAV total return	**16.7**	25.9
FTSE Actuaries All-Share Index total return	**12.8**	20.9

To 31 December 2004	5 years %	10 years %
NAV total return*	10.7	152.7
FTSE Actuaries All-Share Index total return*	(14.0)	117.1
Share price total return*	16.7	112.2
Change in retail price index*	13.0	29.5
Annual earnings growth	2.3	6.3
Annual dividend growth	2.7	6.3
Annual RPI change	2.5	2.6

* Source: AITC.

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

20 year performance



Douglas McDougall OBE (60)
Chairman
Chairman of The Independent Investment Trust plc, Foreign & Colonial Eurotrust PLC and Scottish Investment Trust plc. Former joint senior partner of Baillie Gifford & Co, investment managers, and former chairman of IMRO, of the Association of Investment Trust Companies and of the Fund Managers' Association. Joined the board in 1998, becoming chairman in 2000. Chairman of the remuneration and nomination committees and a member of the audit committee.

Caroline Banszky (51)
Managing director
Appointed to the board in January 2002. Former chief operating officer of SVB Holdings PLC, a Lloyd's listed integrated vehicle, and former finance director of N.M. Rothschild & Sons Limited.

Armel Cates (61)
Non-executive director
A former partner of Clifford Chance and appointed to the board in February 2001. Wide experience of capital markets transactions including medium term note programmes, securitisations and repackagings. Director of Industri Kapital NV and of Charterhouse-in-Southwark Trustee Company. A member of the remuneration, nomination and audit committees and chairman of the LDC Trust Management Limited board.

Kenneth Inglis (61)
Senior non-executive director
Qualified as an actuary in 1966 becoming an investment manager with Scottish Provident. Former chairman of Allied Dunbar Asset Management and Fleming Investment Management. A director of F&C Asset Management plc. Joined the board in 1995. Chairman of the audit committee and a member of the remuneration and nomination committees. Chairman of trustees of the Law Debenture Pension Plan.

Robert Williams (56)
Non-executive director
A former partner of Linklaters, specialising in international finance. A director of Edinburgh UK Smaller Companies Tracker Trust plc. Joined the board in 1993. Member of the LDC Trust Management Limited board. Part time executive director until 31 December 2004, thereafter non-executive.

John Kay (56)
Non-executive director
Appointed to the board in September 2004. Business economist, writer and broadcaster. Visiting professor at the London School of Economics. Founded London Economics, Britain's largest independent economic consultancy. Director of SVM UK Active Fund plc, Value and Income Trust plc and Clear Capital, an equity research boutique. He writes a weekly column for the *Financial Times*. Member of the remuneration, nomination and audit committees.

Investment manager

James Henderson (43)
Joined Henderson Global Investors Limited in 1983 and has been an investment trust portfolio manager since 1990, managing Lowland Investment Company plc since then. He first became involved in the management of Law Debenture's portfolio in 1994, as part of Michael Moule's team, and took over sole management of the portfolio in June 2003.

Performance

Over the year to 31 December 2004, our net asset value total return was 16.7% compared to a total return of 12.8% for the FTSE Actuaries All-Share Index.

Our gross revenue increased over the year by 9.5% from £23.4 million to £25.6 million. Profit after tax attributable to shareholders was £10.1 million, an increase of 25.0% over the previous year as a result of a 12.5% improvement in the investment trust and a 48.4% improvement in trustee and related services. Improved dividends increased the return from the investment trust and all our trustee and related services businesses have performed well.

Earnings and dividends

Earnings per ordinary share for the year to 31 December 2004 were 8.62p, an increase of 24.7% from last year. The board is recommending a final dividend of 4.75p per ordinary share (2003: 4.24p), which, together with the interim dividend of 2.80p (2003: 2.66p), gives a total dividend of 7.55p (2003: 6.90p), an increase of 9.4%. The final dividend will be paid, subject to shareholder approval, on 19 April 2005 to holders on the register on the record date of 18 March 2005. Following two years with no growth in dividend, this recommended increase reflects the increase in the Retail Price Index since 2001. The policy of the company continues to be to seek growth in both capital and income.

Investment trust

Our portfolio has been managed throughout the year by James Henderson, who has an independent, value based approach to investment. During the year the total return of the portfolio was 15.1%, significantly ahead of the FTSE All-Share Index.

We continue to select investments on the basis of what appears most attractive in the conditions of the time. We will not pay unrealistically high prices but hope to be able to buy growth shares on reasonable terms. We do not feel obliged to hold shares of any particular type of company or industry or market, but seek to find the best value. We aim to achieve a better return than the FTSE All-Share Index by good stock picking. We believe that in the long term returns on equities will exceed the cost of our long-term borrowing. Consequently we take on a level of gearing which we believe balances risk with the objective of increasing the return to shareholders.

Growth in the global economy has been reasonably strong, with favourable implications for company profits and stock markets. The year was marked by investment markets encountering a higher interest rate environment and higher oil prices. Globally, interest rates moved up as the fear of deflation receded. In the UK, short-interest rates rose from 3.75% to 4.75% as the Bank of England responded to the buoyant housing market, which is responsible for the significant increase in personal indebtedness. The Federal Reserve increased rates in the USA from 1% to 2.25%.

In the UK, many companies have been benefiting from economic growth. Dividend growth has been better than expected and dividend cover has increased. Corporate debt has fallen as better profits have come through. Operating margins for many companies have improved. In Continental Europe, however, corporate profit performance has been less strong and our exposure to this area has been reduced. We continue to be concerned about the laxness of US monetary and fiscal policies, reflected in high rates of borrowing, a record current account deficit and a weak dollar.

Trustee and related services

Our trustee and related services business increased revenue by 9.9% and profit before tax by 52.2%. Most areas of the business have seen continued growth, whilst our costs have been reduced. We believe trustee and related services are well placed for growth in 2005 but that our cost base is unlikely to be reduced further.

Commercial trusts had a busy year with a number of major appointments. Our pension trustee business has seen growth from new and existing relationships and we expect the Pensions Act 2004 to provide further opportunities. Corporate services continue to grow significantly and service of process is looking to increase the links between London, New York and Hong Kong for further development of the business. New York trust business has achieved break even in the second full year of operations and continues to develop in niche markets. Hong Kong significantly improved its results and achieved a profit. Channel Islands developed its position as an independent provider of trustee and corporate services, resulting in a significant increase in income.

Board

Ken Inglis has decided not to seek re-election at the annual general meeting ("AGM"). He joined the board in 1995 and I should like to thank him for his strong contribution in all areas of the company. Rob Williams stepped down from his part-time executive role at the end of the year, but I am pleased to say that he has agreed to remain on the board as a non-executive director. Professor John Kay joined the board in September and his appointment stands to be confirmed at the AGM. He has a distinguished record as an economist and we are looking forward to working with him. He succeeds Ken Inglis as chairman of the audit committee.

Staff

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

Douglas McDougall

Advisers to the company

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
3 Finsbury Avenue
London EC2M 2PA

Auditors
PKF
Farringdon Place
20 Farringdon Road
London EC1M 3AP

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

Registrar and transfer office
Computershare Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Telephone: 0870 702 0001

Bankers
The Royal Bank of Scotland Group

Stockbrokers
Cazenove Group plc
20 Moorgate
London EC2R 6DA

A member of the Association
of Investment Trust Companies

Background

2004 was a good year for equity market investors. The foundation for this was a strong global economy resulting in substantial real growth in corporate earnings and dividends. There were, however, significant issues including the escalating cost of oil which will increase inflation and reduce corporate margins. To date the global economy is proving sufficiently robust to absorb their impact and equity market investors have set aside their initial fears. Investor confidence was helped by the increase in corporate activity in Europe and the USA, which supports the current level of equity valuations.

The improvement in economic conditions of recent years is maturing. The Bank of England increased the base rate by 1% to 4.75% during the first eight months of 2004, due to concerns over consumer indebtedness and capacity constraints. This appears to have had the desired effect of reducing consumer demand, particularly for property. But the resulting strength of sterling has been detrimental to exporters. In the US, the Federal Reserve dismissed any slowdown as temporary and began moving towards a more neutral interest rate policy, resulting in increases to 2.25% by the year end. The European Central Bank left interest rates unchanged at 2.00% throughout the period, even though inflation remained above target, mainly due to the higher oil prices. Weak domestic demand, particularly in Germany, undermined regional growth, although improving demand for exports bolstered industrial output and business sentiment. The Japanese recovery slowed, as export-led growth failed to filter down into the domestic sector. Persistent deflation and slowing growth in the region prompted The Bank of Japan to maintain its zero-interest rate policy. It intervened aggressively until early March in foreign exchange markets to stem the appreciation in the yen. Rising domestic confidence in the Pacific region led to greater consumption and also higher inflationary pressure across Asia. The Chinese Central Bank raised rates in October, having talked about it for some time. Although export growth slowed in the second half of the year, domestic demand in China remained strong and supported economic growth. The tsunami caused a massive human tragedy; however, the economic impact on the region is not expected to be material as none of the major cities, industries or infrastructure was affected.

The current global climate is one of reasonably strong economic growth with inflation remaining relatively low and stable. This is a good background for equity investment particularly as valuations remain undemanding.

Asset allocation and performance

	Law Debenture asset allocation		Total Return Performance (£)	
Market	31 December 2003 %	**31 December 2004 %**	Law Debenture %	Relevant index* %
UK	70.5	**73.6**	18.6	12.8
Europe (ex UK)	12.5	**10.8**	9.6	13.8
North America	6.9	**6.2**	7.0	4.1
Japan	3.1	**3.1**	6.5	7.9
Pacific (ex Japan)	7.0	**6.3**	(1.4)	17.1

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

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

Source: WM.

UK equities continue to give the best value and therefore they remain the main component of the trust. Our geographic diversification is driven by the desire to find good investment opportunities of a nature which we cannot find in the UK. The exposure in both the Far East and Japan comes through holdings in the Henderson OEICs. The fee paid on these holdings is the same as for the directly held equities. The Pacific OEIC has performed poorly over the year, having performed very strongly in 2003. Over the two years as a whole it is marginally ahead of the relevant index. The weakness of the US dollar has significantly impacted the return from North America.

UK

The UK equity market performed well during the year. The background of reasonably strong economic growth and low inflation combined with modest company valuations meant there were plenty of worthwhile investment opportunities. Corporate cash generation is particularly impressive. This has given rise to share buy backs and strong dividend growth with takeovers also being a feature of the year. Dividend growth has been running at over three times the rate of inflation for the last two years, which underpins the attractiveness of UK equities. The value of UK equities has been recognised by overseas corporate buyers. RMC, the major UK aggregates company, was bought by Cemex of Mexico, while in January 2005 Holcim of Switzerland made an agreed offer for Aggregate Industries. Both these deals have benefited our UK portfolio as have other corporate takeover bids such as the approach for Mersey Docks & Harbour Company. The UK equity market is undervalued relative to overseas markets as a result of divestment by life companies and pension funds.

In spite of the appreciation in sterling and escalating energy prices, we expect the UK companies in the portfolio to continue to produce improved earnings and dividend growth from a combination of revenue growth and good cost control. The exposure in Law Debenture's UK portfolio to capital goods companies, particularly in manufacturing industry, is a reflection of their operating strengths, which have yet to be recognised generally by investors.

North America

The S&P 500 Index rose 9% in dollar terms in 2004, although this return was significantly eroded for foreign investors, such as Law Debenture, by the continuing weakness of the dollar.

Oil prices led the energy sector higher and the technology sector was a laggard. Pharmaceuticals have continued to perform very poorly and in the fourth quarter of 2004 the sector was hit hard by safety concerns surrounding the Cox-2 inhibitor class of blockbuster pain relief drugs.

During the year the portfolio shifted from the larger names into some medium capitalised companies that offered more attractive growth prospects, including CR Bard, a healthcare supplies company, R.R. Donnelley, a contract printer, and First Marblehead, the processing company behind student lending by banks. Larger names that were eliminated from the portfolio included Time Warner, Cisco Systems and Pfizer.

The performance of the portfolio over the year was satisfactory, major contributors included Apple, where demand for the iPod exceeded our own high expectations, and CR Bard where new products accelerated revenue growth.

Europe

European markets made progress last year in spite of unimpressive economic news. The portfolio under-performed the index as it does not include higher risk recovery stocks, which were the best performers in the year. High technology and aggressive growth stocks did well in the first part of the year, but this performance quickly faded. Cyclical stocks, especially steel companies, had a varied ride mainly reflecting global concerns on the Chinese and US economies. There has been no change to our preference for value added cyclical stocks, such as logistics and shipping companies Deutsche Post and Maersk or Sandvik the Swedish based engineering group.

During the year the trust sold VW and Bayer, the former due to concerns over the difficult global car market, the latter on worries about the chemical and pharmaceuticals sectors. We also sold TPG, the Dutch post and logistics group, preferring to concentrate on Deutsche Post. We have established a position in Deutsche Postbank, the predominantly retail bank in Germany. This was sold to the equity market by Deutsche Post, and looks lowly valued with good growth prospects. We also sold KPN, the Dutch telecoms company, on fears about its domestic strength.

2005 looks set to be another unimpressive year for economic growth in Europe. However European governments are becoming more decisive with regards to long overdue structural reform. This, combined with efforts to improve profitability by most companies, should allow markets to make further progress.

Pacific

Asian markets had a volatile 2004 with a weak first half offset by strong returns towards the year end. The best performing markets were Indonesia, Australia and Korea, while Thailand and China were the laggards. Two themes dominated the year: a weak US dollar led to the out-performance of the financial, property and retail sectors and strong Chinese growth prompted a long overdue re-rating of commodities and basic materials. Technology companies under performed in the face of slowing demand, increased capacity and exchange rate movements. The announcement of measures to slow the Chinese economy in April 2004 led to selling of higher risk markets and sectors as speculative investment left the region.

The Henderson Pacific Capital Growth fund did not fully participate in the positive trends mentioned above. The fund benefited significantly in 2003 by being overweight in the Thai market, however this reversed in January 2004 as foreign investors took profits. The fund also failed to participate in the recovery in commodity stocks in the second half of 2004 but benefited from having low exposure to the technology sector and higher holdings in Singapore. We remain cautious on the outlook for 2005 with slowing global growth and rising US interest rates. With this in mind, we continue to favour domestic growth over exports with a focus on ASEAN over North Asia. We are therefore overweight Thailand, Singapore and Malaysia at the expense of Korea and Australia.

Japan

The Tokyo First Section Index rose by 10.2% over the year in yen terms. The yen weakened slightly against sterling from 191.4 to 196.9 over the period.

Japanese equities followed the economic cycle, with a peak in both in April. Thereafter, underlying momentum began to slow and equities drifted downwards, before rallying at the end of the year on hopes that the nadir of the economic slowdown would be in the first quarter of 2005. Themes were difficult to identify. Financials were again amongst the best performing sectors as the rehabilitation of the banks continues and prospects for an end to deflation improve. Commodities waxed and waned on global sentiment and worries about China.

Relative performance of the fund was good in the first half, but poor in the second half ending slightly below the relevant benchmark for the full year. The under-performance in the second half was stock-specific, coming from three stocks; Sumitomo Mitsui Financial Group, Nippon Telegraph & Telephone and Pioneer. The portfolio remains biased towards recovery and cyclical stocks, which should again deliver as the economic cycle improves.

Structural changes have taken place and Japanese companies have high levels of cash and are forecast to achieve a fourth consecutive record year of operating profits with the highest ever return on equity of near 10% in fiscal year 2005.

James Henderson
Henderson Global Investors Limited

Top 20 holdings by value

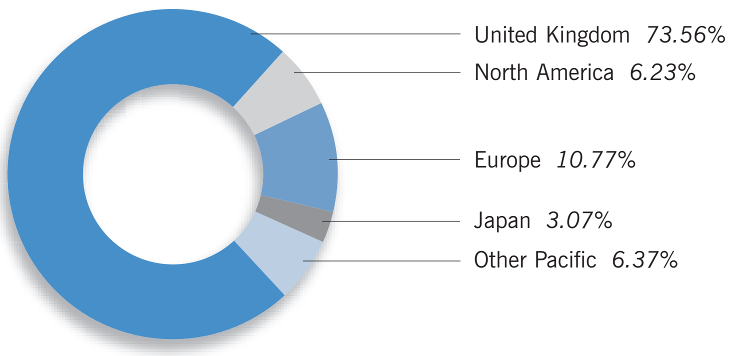
Rank	Company	2004 Value £000	2004 % of portfolio	2003 % of portfolio	2003 Rank
1	Henderson Pacific Capital Growth (Pacific)*	**19,320**	**6.34**	6.93	1
2	BP	**13,208**	**4.34**	4.20	2
3	HSBC	**9,731**	**3.19**	3.45	3
4	Henderson Japan Capital Growth (Japan)*	**9,367**	**3.07**	3.13	5
5	GlaxoSmithKline	**8,921**	**2.93**	3.33	4
6	Shell Transport & Trading	**8,880**	**2.92**	2.96	6
7	Royal Bank of Scotland	**7,183**	**2.36**	2.41	7
8	Barclays	**5,860**	**1.92**	1.78	9
9	HBOS	**5,258**	**1.73**	1.60	11
10	Alfred McAlpine	**4,575**	**1.50**	1.57	12
11	British American Tobacco	**4,398**	**1.44**	1.62	10
12	Lloyds TSB	**4,257**	**1.40**	1.44	13
13	Vodafone	**4,238**	**1.39**	1.97	8
14	Tesco	**3,861**	**1.27**	1.10	17
15	Diageo	**3,566**	**1.17**	1.26	14
16	Reckitt Benckiser	**3,463**	**1.14**	0.99	18
17	Redrow	**3,454**	**1.13**	–	–
18	Greene King	**3,206**	**1.05**	0.74	29
19	Aggregate Industries	**3,135**	**1.03**	–	–
20	TT Electronics	**2,895**	**0.95**	0.68	37
			42.27		

* Open ended investment companies.

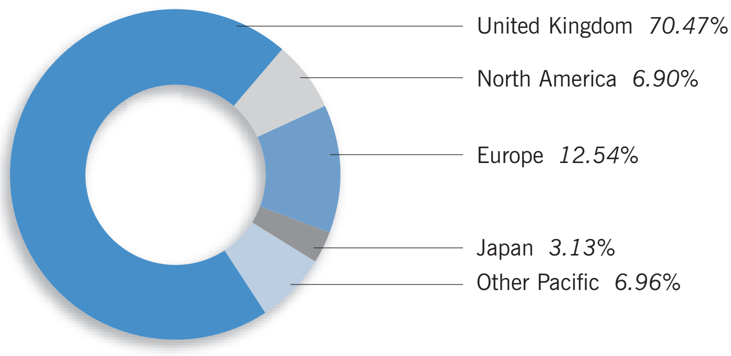
The top 20 holdings by value at 31 December 2003 accounted for 44% of the investment portfolio.

	Valuation 31 December 2003 £000	Purchases £000	Sales proceeds £000	Appreciation/ (depreciation) £000	**Valuation 31 December 2004 £000**
United Kingdom	197,740	23,831	(24,962)	27,447	**224,056**
North America	19,349	18,018	(19,390)	966	**18,943**
Europe	35,171	8,068	(12,092)	1,671	**32,818**
Japan	8,795	–	–	572	**9,367**
Other Pacific	19,518	–	–	(93)	**19,425**
	280,573	49,917	(56,444)	30,563	**304,609**

Geographical distribution of portfolio 2004



Geographical distribution of portfolio 2003



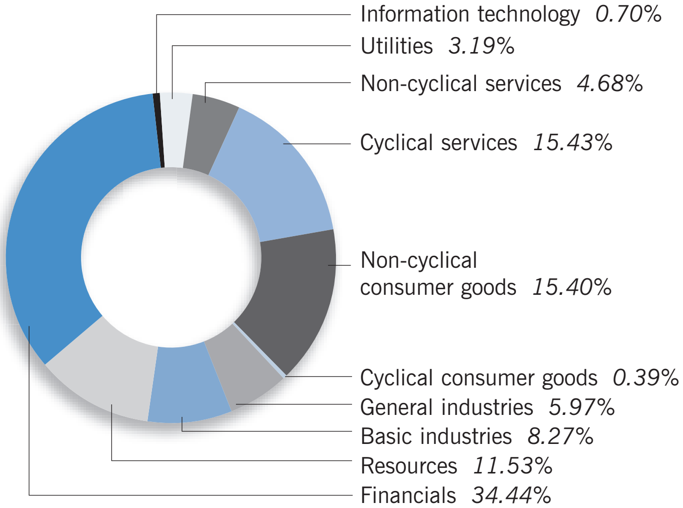
based on market values at 31 December 2004

	United Kingdom %	North America %	Europe %	Japan %	Other Pacific %
Resources					
Mining	1.97	–	–	–	–
Oil & gas	7.82	0.98	0.76	–	–
	9.79	0.98	0.76	–	–
Basic industries					
Chemicals	1.20	–	–	–	–
Construction & building materials	5.42	–	0.82	–	–
Forestry & paper	0.61	–	–	–	–
Steel & other metals	–	0.22	–	–	–
	7.23	0.22	0.82	–	–
General industrials					
Aerospace & defence	1.35	–	–	–	–
Electronic & electrical equipment	0.95	0.66	0.29	–	–
Engineering & machinery	2.38	–	0.34	–	–
	4.68	0.66	0.63	–	–
Cyclical consumers goods					
Automobiles & parts	0.39	–	–	–	–
Household goods & textiles	–	–	–	–	–
	0.39	–	–	–	–
Non-cyclical consumers goods					
Beverages	2.45	0.31	–	–	–
Food producers & processors	2.49	–	0.60	–	–
Health	0.82	0.86	0.63	–	–
Personal care & household products	1.14	–	–	–	–
Pharmaceuticals & biotech	2.93	–	0.98	–	–
Tobacco	2.19	–	–	–	–
	12.02	1.17	2.21	–	–
Cyclical services					
General retailers	1.82	0.39	0.20	–	–
Leisure & hotels	3.18	0.36	–	–	0.03
Media & entertainment	3.87	0.23	–	–	–
Support services	1.00	0.20	1.36	–	–
Transport	2.32	–	0.47	–	–
	12.19	1.18	2.03	–	0.03
Non-cyclical services					
Food & drug retailers	1.47	–	–	–	–
Telecommunication services	3.02	0.19	–	–	–
	4.49	0.19	–	–	–
Utilities					
Electricity	1.58	–	–	–	–
Utilities, other	1.50	0.11	–	–	–
	3.08	0.11	–	–	–
Information technology					
Information technology hardware	–	0.51	–	–	–
Software & computer services	–	0.19	–	–	–
	–	0.70	–	–	–
Financials					
Banks	11.71	0.62	1.97	–	–
Insurance	1.08	–	–	–	–
Life assurance	3.92	–	0.97	–	–
Investment companies	0.01	–	–	3.07	6.34
Real estate	2.27	–	0.77	–	–
Speciality & other finance	0.70	0.40	0.61	–	–
	19.69	1.02	4.32	3.07	6.34
Total 2004	**73.56**	**6.23**	**10.77**	**3.07**	**6.37**
Total 2003	70.47	6.90	12.54	3.13	6.96

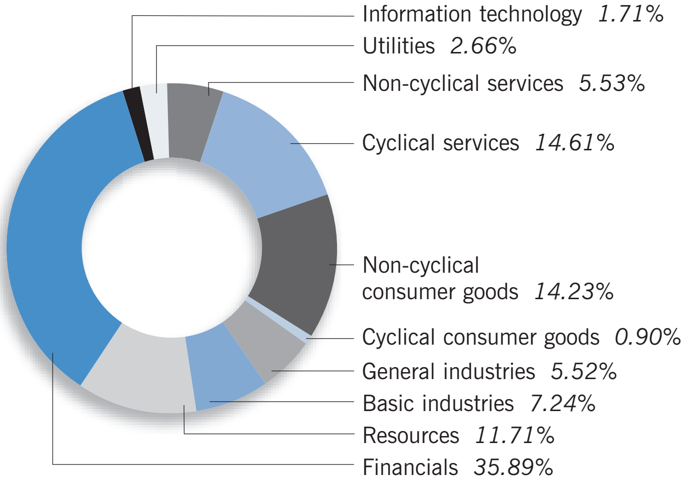
The above table excludes bank balances and short term deposits.

Total 2004 £000	2004 %	Total 2003 £000	2003 %
6,008	1.97	6,104	2.18
29,103	9.56	26,710	9.53
35,111	11.53	32,814	11.71
3,674	1.20	4,082	1.46
19,009	6.24	13,637	4.85
1,869	0.61	1,624	0.58
658	0.22	958	0.35
25,210	8.27	20,301	7.24
4,114	1.35	3,094	1.10
5,748	1.90	5,877	2.09
8,298	2.72	6,550	2.33
18,160	5.97	15,521	5.52
1,183	0.39	2,157	0.77
–	–	377	0.13
1,183	0.39	2,534	0.90
8,390	2.76	6,272	2.24
9,400	3.09	7,377	2.62
7,031	2.31	5,206	1.86
3,463	1.14	2,781	0.99
11,931	3.91	11,711	4.17
6,693	2.19	6,583	2.35
46,908	15.40	39,930	14.23
7,362	2.41	7,593	2.71
10,901	3.57	7,875	2.80
12,519	4.10	9,598	3.42
7,827	2.56	8,015	2.84
8,454	2.79	7,949	2.84
47,063	15.43	41,030	14.61
4,453	1.47	3,093	1.10
9,773	3.21	12,454	4.43
14,226	4.68	15,547	5.53
4,830	1.58	3,981	1.42
4,901	1.61	3,484	1.24
9,731	3.19	7,465	2.66
1,542	0.51	2,970	1.06
586	0.19	1,816	0.65
2,128	0.70	4,786	1.71
43,582	14.30	42,091	15.02
3,272	1.08	2,779	0.99
14,870	4.89	11,886	4.24
28,710	9.42	28,268	10.07
9,243	3.04	10,899	3.88
5,212	1.71	4,722	1.69
104,889	34.44	100,645	35.89
304,609	100.00		
		280,573	100.00

Portfolio by sector 2004



Portfolio by sector 2003



as at 31 December 2004

The number of investments has decreased from 146 at 31 December 2003 to 143 at 31 December 2004.
Those shown in italics are new holdings in the six months since 30 June 2004.

	£000	%
Resources		
Mining		
BHP Billiton	2,442	0.80
Anglo American	2,033	0.67
Rio Tinto	1,533	0.50
	6,008	1.97
Oil & gas		
BP	13,208	4.34
Shell Transport & Trading	8,880	2.92
Total (Fra)	2,318	0.76
BG	1,699	0.56
Exxon Mobil (USA)	1,231	0.40
Duke Energy (USA)	956	0.31
Schlumberger (USA)	*811*	*0.27*
	29,103	9.56
Basic industries		
Chemicals		
BOC	1,987	0.65
ICI	1,687	0.55
	3,674	1.20
Construction & building materials		
Alfred McAlpine	4,575	1.50
Redrow	*3,454*	*1.13*
Aggregate Industries	3,135	1.03
Hanson	2,012	0.66
BPB	1,893	0.62
ACS Actividades Construccion (Spain)	1,784	0.59
Wolseley	1,460	0.48
CRH (Ireland)	696	0.23
	19,009	6.24
Forestry & paper		
Smith (DS)	1,869	0.61
	1,869	0.61
Steel & other metals		
Alcan (Canada)	658	0.22
	658	0.22
General Industrials		
Aerospace & defence		
Rolls Royce	2,470	0.81
Smiths	1,644	0.54
	4,114	1.35
Electronic & electrical equipment		
TT Electronics	2,895	0.95
Philips Electronics (Neth)	856	0.29
Waters (USA)	792	0.26
General Electric (USA)	*779*	*0.26*
Tyco (USA)	426	0.14
	5,748	1.90
Engineering & machinery		
Senior	2,025	0.66
Renold	1,527	0.51
Tomkins	1,526	0.50
Sandvik (Swed)	1,050	0.34
Morgan Crucible	880	0.29
Weir Group	*803*	*0.26*
Charter	*487*	*0.16*
	8,298	2.72

	£000	%
Cyclical consumer goods		
Automobiles & parts		
GKN	1,183	0.39
	1,183	0.39
Non-cyclical consumer goods		
Beverages		
Diageo	3,566	1.17
Scottish & Newcastle	2,179	0.72
Allied Domecq	1,693	0.56
Pepsico (USA)	*952*	*0.31*
	8,390	2.76
Food producers & processors		
Unilever	2,558	0.84
Tate & Lyle	2,364	0.78
Nestlé (Switz)	1,836	0.60
Cadbury Schweppes	1,770	0.58
Premier Foods	*872*	*0.29*
	9,400	3.09
Health		
Smith & Nephew	2,505	0.82
Fresenius (Ger)	1,930	0.63
Bard (USA)	1,069	0.35
Medtronic (USA)	914	0.31
Abbott Laboratories (USA)	613	0.20
	7,031	2.31
Personal care & household products		
Reckitt Benckiser	3,463	1.14
	3,463	1.14
Pharmaceuticals & biotech		
GlaxoSmithKline	8,921	2.93
Novartis (Switz)	1,627	0.53
Altana (Ger)	*1,383*	*0.45*
	11,931	3.91
Tobacco		
British American Tobacco	4,398	1.44
Gallaher	2,295	0.75
	6,693	2.19
Cyclical services		
General retailers		
GUS	2,816	0.92
Boots	1,573	0.52
Dixons	1,034	0.34
Walgreen (USA)	*799*	*0.26*
Inditex (Spain)	*615*	*0.20*
Avon Products (USA)	389	0.13
Peacock	*136*	*0.04*
	7,362	2.41
Leisure & hotels		
Greene King	3,206	1.05
Hilton	2,390	0.78
Carnival	1,712	0.56
Intercontinental Hotels	1,274	0.42
Carnival (USA)	1,088	0.36
Whitbread	*846*	*0.28*
Mytravel 7% Conv. Bond	226	0.07
Mytravel Warrants	*27*	*0.01*
Mytravel	27	0.01
	10,796	3.54

	£000	%
Media & entertainment		
BSkyB	2,810	0.92
EMI	2,650	0.87
Johnston Press	2,168	0.71
Reed Elsevier	2,114	0.69
Reuters	2,076	0.68
Donnelley (USA)	*701*	*0.23*
	12,519	4.10
Support services		
Johnson Service	2,082	0.68
Deutsche Post (Ger)	1,552	0.51
Adecco (Switz)	1,376	0.45
ISS International (Den)	1,221	0.40
Compass	985	0.32
Xerox (USA)	*611*	*0.20*
	7,827	2.56
Transport		
BAA	1,577	0.52
P&O	1,488	0.49
AP Moller-Maersk (Den)	1,420	0.47
Mersey Docks & Harbour	1,399	0.46
Wincanton	1,314	0.43
Go-Ahead	*778*	*0.26*
Avis Europe	478	0.16
	8,454	2.79
Non-cyclical services		
Food & drug retailers		
Tesco	3,861	1.27
Sainsbury	592	0.20
	4,453	1.47
Telecommunications services		
Vodafone	4,238	1.39
BT	2,639	0.87
Colt Telecom 7.625% 15 Dec 2009	1,398	0.46
Colt Telecom 7.625% 31 Jul 2008	916	0.30
Avaya (USA)	582	0.19
	9,773	3.21
Utilities		
Electricity		
National Grid Transco	1,835	0.60
Scottish & Southern Energy	1,745	0.57
Scottish Power	1,250	0.41
	4,830	1.58
Utilities, other		
Severn Trent	2,224	0.73
United Utilities	1,669	0.55
United Utilities A Shares	659	0.22
Nalco (USA)	*349*	*0.11*
	4,901	1.61
Information technology		
Information technology hardware		
Apple Computer (USA)	933	0.31
EMC (USA)	*609*	*0.20*
	1,542	0.51
Software & computer services		
Microsoft (USA)	586	0.19
	586	0.19

	£000	%
Financials		
Banks		
HSBC	9,731	3.19
Royal Bank of Scotland	7,183	2.36
Barclays	5,860	1.92
HBOS	5,258	1.73
Lloyds TSB	4,257	1.40
BNP Paribas (Fra)	1,811	0.59
Standard Chartered	1,743	0.57
Alliance & Leicester	1,642	0.54
ABN Amro (Neth)	1,628	0.53
Fortis (Neth)	1,585	0.52
Citigroup (USA)	1,063	0.35
Deutsche Postbank (Ger)	1,010	0.33
Wachovia (USA)	*811*	*0.27*
	43,582	14.30
Insurance		
Hiscox	1,665	0.55
Wellington Underwriting	1,607	0.53
	3,272	1.08
Life assurance		
Aviva	2,575	0.85
Old Mutual	2,120	0.70
Friends Provident	2,010	0.66
Prudential	2,008	0.66
Legal & General	1,980	0.65
Aegon (Neth)	1,492	0.49
Alleanza Assicurazioni (Ita)	1,454	0.48
Britannic	1,231	0.40
	14,870	4.89
Investment companies		
Henderson Pacific Capital Growth (Pacific)	19,320	6.34
Henderson Japan Capital Growth (Japan)	9,367	3.07
International Inc Fund	23	0.01
	28,710	9.42
Real estate		
Hammerson	2,606	0.86
Unibail (Fra)	2,337	0.77
Slough Estates	2,200	0.72
Land Securities	2,100	0.69
	9,243	3.04
Speciality & other finance		
Provident Financial	2,016	0.66
Deutsche Börse (Ger)	1,794	0.60
First Marblehead (USA)	*791*	*0.26*
CIT Group (USA)	*430*	*0.14*
	5,031	1.66

Results

Trustee and related services revenue rose by 9.9% benefiting from growth in special fees in commercial trusts and in New York, and continued growth in pensions and corporate services. Profit before tax was £5,120,000 compared with £3,363,000 for the previous year, an increase of 52.2%, helped by the reorganisation of our UK operations in 2003 and a focus on costs. Our New York operations are gaining recognition in their local market and overall our overseas offices have broken even for the year. The much improved performance of trustee and related services has contributed a return of 3.56p per ordinary share to shareholders, an increase of 48.3%.

Commercial trusts

Commercial trusts remains the largest contributor to income in our trustee and related services business. Capital markets transactions continue to provide the bulk of our business. Although the market for commercial trust services was extremely competitive, 2004 was a busy year for Law Debenture.

The pan-European lottery was extended to include six further participants so that we now act as security trustee for national lotteries in Austria, Belgium, Ireland, Luxembourg, Portugal and Switzerland as well as the original joint-venture partners in the UK, Spain and France.

Law Debenture was selected for a number of high profile transactions in the international capital markets. For example, we were appointed as common representative for the first securitisation to be undertaken by the Portuguese Government.

We also acted as bond trustee and security trustee for the £1.6 billion securitisation by Tube Lines, which owns the concession to manage and upgrade the infrastructure on parts of the London Underground, and for the index-linked bonds to fund the construction of a new 1,470 bed hospital by Catalyst Healthcare in Manchester.

Law Debenture acts as administrator to a number of limited partnerships set up by European banks, such as Allied Irish Bank, Anglo Irish Bank, Cofinoga and Depfa Bank, who have sought to augment their Tier 1 capital.

Inevitably, we are also involved in a number of defaults, or potential defaults, and restructurings both in the UK and overseas. There has been considerable activity, including court cases during the year, in connection with bonds issued by a finance subsidiary of the Polish industrial conglomerate, Elektrim S.A., for which Law Debenture is trustee. It is anticipated that there will be significant further activity in 2005. In all cases, we work closely with our legal advisers to endeavour to protect the interests of the bondholders. Although the trustee is legally entitled to recover its costs, we are not always able to do so.

Treasury management

Treasury management provides trust cash management and administration services in relation to commercial trusts, employee benefit schemes and retention plans, project financing and escrow arrangements.

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

Pensions

Our pension trustee business continued to grow during the year, both by significant new appointments and through greater activity on existing appointments. During the year, following our appointment in 2003 as a trustee to the Sea-Land Service Pension Plan, we were pleased to secure an agreement between the trustees and the Maersk Company, that Maersk would make payments into the Plan to ensure that members' benefits would not be reduced.

We expect to see steady growth in this market in 2005 as provisions in the Pension Act 2004 begin to come into effect. Law Debenture continues to look for ways to maintain its position as the leading professional pension scheme trustee.

We participate in many industry-wide bodies and have recently contributed to the development of a code of conduct for independent professional pension trustees. We have responded to government consultations and contributed both formally and informally to discussions and debates on a wide range of pension subjects that are of direct concern to our clients. In November, we held a public debate on a topical pension issue which attracted a large and impressive audience and helped to demonstrate and reinforce our standing in the pension world. Law Debenture plans to launch a "self-assessment" document in Spring 2005 to help pension trustees to review how well they are performing. This will help raise standards and demonstrate the depth of our own experience.

We have a team of full-time experienced professionals with support staff. We are continuing to invest in professional development for the team and to develop our internal control systems to ensure that we maintain high standards as a professional pension trustee.

During the year the head of our pensions department, Richard Thomas, retired. He had a key role in the development of our pension trustee business over the past 15 years.

Corporate services

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

The second income stream is the provision of corporate services (corporate directors and company secretary to special purpose vehicles). This business, although relatively new, has quickly become established in its market. In particular, we have been successful in winning appointments in the securitisation, emerging markets and specialised restructured debt sectors. The corporate services department operates independently of the commercial trust business and provides services to transactions whether or not Law Debenture has a trustee role.

Overseas

New York

Law Debenture Trust Corporation of New York achieved break-even in 2004, its second full year of operations, one year ahead of plan. Income benefited from special fees from our role as successor trustee in respect of corporate bankruptcies, including MCI WorldCom. We continue to focus on our niche market which includes high yield bonds, speciality corporate finance situations, multi-lateral agency financing and escrows. During the year, we were appointed trustee to high-yield bond issuers, including NRG Companies, Mueller Group Inc. and SAC Holdings. In 2004, we opened an account with the Depository Trust and Clearing Corporation so that Law Debenture can provide the paying agent and registrar services hitherto outsourced.

Law Debenture Corporate Services Inc. had a disappointing year as a result of difficult market conditions arising from changes in US tax legislation and decreased activity from US Patriot Act appointments. Marketing efforts are being co-ordinated with London to improve the prospects for 2005. Efficient service and personal relationships continue to be the key to success in the service of process business.

continued

Hong Kong
The Hong Kong office continued to improve its results and achieved a profit during 2004. Towards the end of the year, the restructuring of the major Lai Sun hotel and property group was concluded with Law Debenture Asia acting as bond trustee and security trustee under the new arrangements.

The year saw further activity for us in mainland China, including an escrow appointment in connection with the acquisition of Harbin Brewery by Anheuser-Busch. The strong level of growth in the Chinese economy is expected to give rise to additional opportunities for us in that market, whilst improvements in the Hong Kong economy and investor sentiment augur well for levels of activity in the capital markets during the year ahead.

Channel Islands
Law Debenture Channel Islands developed its position as an independent provider of trustee and corporate services in the Channel Islands during the year and forged closer relationships with local lawyers, banks and accountants. It was appointed as trustee of a £500 million structure of a leading bank and distribution trustee for a scheme of arrangement for a UK quoted company.

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

Caroline Banszky

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2004. The Corporation retains its status as an investment trust and has been treated by the Inland Revenue and approved as such for the year ended 31 December 2003, the latest year for which financial statements have been submitted. Such approval for the year ended 2003 is subject to there being no subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the directors, the Corporation has subsequently conducted its affairs so as to enable it to obtain section 842 approval under the Income and Corporation Taxes Act 1988. The Corporation, which (as far as the directors are aware) is not a close company, is registered as an investment company as defined in section 266 of the Companies Act 1985 and operates as such. The directors consider that the Group operates as a going concern.

In August 2002, all of the Corporation's ordinary shares of 25p were split into five ordinary shares of 5p. Wherever share related data are shown for a period before August 2002, the data have been restated to reflect the share split.

Revenue, dividends and reserves

The revenue return attributable to shareholders for the year ended 31 December 2004 was £10,092,000. The directors recommend a final dividend of 4.75p per share, which, together with the interim dividend of 2.80p paid in September 2004, will produce a total of 7.55p (2003: 6.90p). The final dividend will be paid on 19 April 2005 to holders on the register on the record date of 18 March 2005. After deduction of dividends of £8,852,000 (2003: £8,061,000), consolidated revenue reserves increased by £1,240,000 (2003: increase of £12,000).

Directors

All the directors on page 5 held office throughout the year except for Professor J.A. Kay who was appointed on 28 September 2004. In accordance with the articles of association, Professor Kay is required to retire and offer himself for election. The board supports his nomination as he has already demonstrated since appointment that he can enhance the operation of the board.

Mrs C.J. Banszky and Mr K.W.B. Inglis retire by rotation at the annual general meeting. Mr Inglis has not offered himself for re-election. Mrs Banszky has offered herself for re-election and the board supports her re-election. She has continued to perform well as managing director, and makes a full and valuable contribution to the board.

Mr R.J. Williams became a non-executive director on 1 January 2005. Since he has been a director for more than 9 years, the Combined Code on Corporate Governance requires him to stand for annual re-election. The board supports his re-election. Mr Williams has provided valuable service as an executive director, and the board is confident that, as a non-executive he will continue to provide advice on both the investment trust and the trustee business.

No director has a service contract with any member of the Group in excess of one year or was materially interested in any other contract with any member of the Group. During the year, liability insurance was maintained for the benefit of directors and other officers.

Directors' shareholdings

Beneficial interests as at 31 December or if later date of appointment	**2004**	2003
C.J. Banszky	**19,770**	11,657
A.C. Cates	**35,195**	35,107
K.W.B. Inglis	**22,500**	22,500
J.A. Kay*	**5,000**	5,000
D.C.P. McDougall	**410,000**	410,000
R.J. Williams	**85,378**	78,039

* Appointed 28 September 2004.

No director has a beneficial interest in the shares of any subsidiary company. There has been no change in directors' interests since 31 December 2004, save that Mrs Banszky acquired a further 918 shares.

continued

Regulatory compliance

The Corporation is subject to continuing obligations applicable to listed companies, overseen by the UK Listing Authority, which is a division of the Financial Services Authority ("FSA"). One company in the Group, The Law Debenture Trust Corporation p.l.c., is regulated in the conduct of a limited range of authorised business activity. The directors receive periodic reports from the compliance officer about its conduct.

Law Debenture's responsibilities as an institutional shareholder

The Corporation's policy is as follows:

Law Debenture will normally support incumbent management and, where practicable, vote in favour of resolutions proposed by the boards of companies in which it has a shareholding, but reserves the right to vote against management where appropriate.

The board determines the Corporation's investment strategy but does not issue express instructions to the investment manager on transactions in individual 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 dialogue with the company concerned in an attempt to alter the management's position.

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

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

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

Repurchase of shares

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

Substantial shareholdings

As at 22 February 2005, the following shareholders have notified the Corporation of their interest in 3% or more of the issued share capital:

British Empire Securities & General Trust plc	6.33%

The board is not aware of any other substantial holdings.

Shareholder relations

The Corporation encourages communication between the management and shareholders on matters of mutual interest. All shareholders receive a copy of the annual report and the interim statement, and the Corporation also provides this service to shareholders in nominee companies where the nominee has made appropriate arrangements. If they so wish, shareholders may choose to receive communications in electronic form.

Employee participation

Employees are informed of the financial aspects of the Group's performance through periodic management meetings. Copies of the annual report and the interim statement are made available to all employees. Details of the general bonus scheme are contained in the remuneration report on page 31. The Corporation has since 1992 operated SAYE schemes in which all full-time employees are eligible to participate after completing a minimum service requirement. A new scheme was approved by the shareholders in 2002. Options outstanding under the SAYE schemes at 31 December 2004 were:

Date of grant	Number of option holders	Shares under option	Exercise price
23 May 2000	4	6,590	230.00p
24 May 2001	3	4,465	241.04p
4 July 2002	3	4,700	225.10p
2 July 2003	39	246,823	172.40p
17 June 2004	17	38,177	203.82p

It is essential to retain and incentivise key executives responsible for the trustee business. Since 1993, the Corporation has operated Executive Share Option Schemes, which enable these executives to be granted options to acquire shares in the Corporation. A new scheme was approved by shareholders in 2002. Options granted under the scheme are normally exercisable between the third and tenth anniversaries of the option grant date. For options granted from 1998 onwards, such exercise is contingent upon targets for the trustee business being achieved. 175,543 options were granted during 2004 and total options outstanding at 31 December 2004 were as follows:

Date of grant	Number of option holders	Shares under option	Exercise price
25 May 1995	2	75,000	162.6p
15 October 1996	1	12,500	193.0p
4 December 1998	11	272,140	212.1p
7 August 2001*	6	350,765	245.8p
2 August 2002	1	31,205	211.5p
28 March 2003	20	247,994	174.2p
2 March 2004	22	163,298	228.2p

* These options lapsed unexercised on 7 February 2005.

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

Investment management

Henderson Global Investors Limited is solely responsible for the management of the investment portfolio. Henderson is fully aware of the Corporation's investment strategy and provides a cost competitive service. Consequently the directors believe that the continuing appointment of 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 £708,000 (2003: £629,000) and are based on 0.25% per annum of the average portfolio value, excluding cash. The underlying management fee of 1% on the Corporation's holdings in the Henderson Japanese and Pacific OEICs has been rebated. The Corporation holds no shares in members of the HHG Group, the parent company of Henderson Global Investors Limited; it has been notified that funds managed by members of the HHG Group held 677,811 shares in the Corporation at 31 December 2004.

Charitable donations

During the year the Corporation made charitable donations of £3,017 (2003: £1,189).

Payment of suppliers

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

continued

Statement of directors' responsibilities in relation to the financial statements

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

In preparing the accounts on pages 38 to 55, the directors are required to select suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and state whether applicable accounting standards have been followed. They consider it appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the Group consist mainly of readily realisable securities.

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

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

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

International financial reporting standards

Under a regulation adopted by the European Parliament the company is required to prepare its financial statements under International Financial Reporting Standards ("IFRS") with effect from next year. During 2004 we have carried out a review to identify the changes to accounting policies which will be necessary to comply with IFRS for the company. The key changes from IFRS are expected to relate to: retirement benefits, accounting for investments, financial instruments, revenue and share based payments.

Auditors

A resolution to re-appoint PKF as auditors to the Corporation will be proposed at the Annual General Meeting.

By order of the board

Law Debenture Corporate Services Limited
Secretary

28 February 2005

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

The board – role, *modus operandi* and appraisal

The board is comprised of a majority of non-executive directors. The names of the directors who served through the year, along with brief biographies, are on page 5 of the annual report.

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

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

The board operates as a collective decision making forum. Individual directors are required to scrutinise reports produced by the executive, and are encouraged to debate issues in an open and constructive manner. If one or more directors cannot support a consensus decision, then a vote would be taken and the views of a dissenting director recorded in the minutes. This is rare, however, and it was not necessary to take a vote on any board decision during 2004.

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.

	Board	Remuneration	Audit	Nominations
Number of meetings in the year	8	3	3	2
Meetings attended by:				
C.J. Banszky	8	–	–	–
A.C. Cates	7	2	2	2
K.W.B. Inglis	8	3	3	1
J.A. Kay*	3	1	–	–
D.C.P. McDougall	8	3	3	2
R.J. Williams	8	–	–	–

* Appointed 28 September 2004.

There are also two strategy days each year: one attended only by the directors; the other, in respect of the trustee business, attended by business heads with the managing director and two other directors in attendance.

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

continued

Mr Inglis is the senior independent director and will remain so until the 2005 annual general meeting ("AGM"). He is available to shareholders who have concerns that cannot be addressed through the chairman, managing director or chief financial officer. It is the board's intention that Mr Cates be appointed the senior independent director following the AGM.

The board – independence

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

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

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

Mr Inglis will have served 10 years as a non-executive director by the time of the 2005 AGM, at which point he has indicated that he will retire and not seek re-election. In the board's opinion, the length of time served on the board by Mr Inglis has not diminished his independence of character and judgement.

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

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

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

The board – composition

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

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

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

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

Directors' remuneration

Details of the directors' remuneration appear in the remuneration report at page 35.

Board committees

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

All members of board committees are independent non-executive directors. The managing director normally attends meetings, but only at the invitation of each committee and not when her own remuneration is being considered.

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

Nominations committee

Role

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

Key duties

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

Members

Mr D.C.P. McDougall (chairman)
Mr A.C. Cates
Mr K.W.B. Inglis
Professor J.A. Kay

Audit committee

Role

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

Key duties

- Monitoring the independence and objectivity of the auditors, their performance and remuneration including in respect of non-audit services;
- 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

Mr K.W.B. Inglis (chairman)
Mr D.C.P. McDougall
Mr A.C. Cates
Professor J.A. Kay

The board is satisfied that all members have the necessary recent and relevant financial and operational 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 directors and senior executives;
- Development of total remuneration packages of the executive, based in part on performance and subject to suitable performance measurements as set by the committee; and
- To make recommendations to the board for any changes to long term incentive arrangements.

Members

Mr D.C.P. McDougall (chairman)
Mr A.C. Cates
Mr K.W.B. Inglis
Professor J.A. Kay

Accountability and audit

The statement of directors' responsibilities in relation to the financial statements appears on page 24 of the annual report and accounts. The independent auditors' report appears on page 37. The directors confirm that the Corporation and the Group is a going concern as evidenced by the financial statements, which demonstrate a healthy position, taking into account all known and future anticipated liabilities, and the Group's ability to meet those liabilities.

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

Non-audit services provided by the auditor are reviewed by the audit committee to ensure that independence is maintained.

Internal controls

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

- Board review of the Group's matrix of key risks and controls;
- An internal audit function, which involves not only each business department (including overseas offices) being subject to audit on a regular basis, but also regular reviews of other business wide processes;
- Testing by the compliance officer of the Financial Services Authority ("FSA") regulated business systems and controls; and
- Review of reports by the external auditors on their annual audit work, and specific checks carried out on behalf of treasury management clients.

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

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

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

- A regular qualitative self-assessment of the effectiveness of the individual controls maintained in the overall internal financial control framework;

- Preparation by management of a comprehensive and detailed budget system, involving annual board approval and monthly comparison at board level of actual results with budgets and forecasts;
- Systematic reporting to the board of matters relating to insurance, pensions, taxation, accounting and cash management as well as legal, compliance and company secretarial issues;
- The review of the internal controls of those services, such as investment management, custody and registration, which have been delegated to third parties, such review being conducted during the initial contractual negotiation and on a regular basis, including annual meetings with the senior management and compliance staff of Henderson Global Investors Limited;
- Monitoring by the board of the investment management process, including the establishment and maintenance of investment guidelines, receiving a report from the investment manager at each board meeting, the review of all transactions with the investment manager and regular reconciliations of the records of the group with those of the global custodian; and
- Frequent and detailed reports received about the trustee businesses, including reports (and attendance at board meetings from time to time) from the managing directors of overseas subsidiaries.

The systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material 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 2004 and will be reviewed by the board on a regular basis.

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

Relations with shareholders and institutional shareholder responsibilities

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

Annual general meeting

Details of the annual general meeting ("AGM") for 2005 are set out at page 57.

The board recognises the value of the AGM as an opportunity to communicate with investors and encourage their participation. Where requested by nominee holders, annual reports and related documentation are circulated to underlying holders, and the Corporation is happy for underlying holders to attend the AGM and (where appropriate arrangements have been made with the nominee) to vote their shares in person.

Dear Shareholder

In accordance with the Directors' Remuneration Report Regulations 2002 ("the Regulations") and the Companies (Summary Financial Statement) Amendment Regulations 2002, on behalf of the board I submit the remuneration report for The Law Debenture Corporation p.l.c. for 2004. The report contains specific and detailed information about the way directors of the Corporation are remunerated, and the amounts they receive. Some of the information is historical, some forward looking. Those sections that have been audited in accordance with the Regulations are shown at the top of each relevant paragraph.

The remuneration report will be put to shareholders for approval as an ordinary resolution at the annual general meeting.

Douglas McDougall
Chairman, remuneration committee

Remuneration committee – membership and advisers

The board has delegated responsibility for consideration of all matters relating to executive directors' remuneration to the remuneration committee. All of the members of the committee (listed at page 28) are independent, non-executive directors. Each of these served throughout the year to 31 December 2004, with the exception of Professor J.A. Kay who joined the board in September.

The committee met three times during the year. The managing director attended all 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. The committee did not engage any other third party to provide advice.

To the extent required by statute, disclosures in this remuneration report have been audited – the independent auditors' report appears on page 37.

The Corporation's remuneration policy

The remuneration committee and the board recognise that the Corporation and its subsidiaries work in competitive markets. The aim of the Corporation is to ensure that remuneration packages offered to executive directors and senior executives are competitive, and designed to attract, retain and motivate individuals of the appropriate 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 executive directors and senior executives comprise: basic salary; general bonus scheme, which may be invested in a Share Incentive Plan, calculated by reference to the success of the trustee and related businesses; executive share options, granted periodically and phased in over a period of years, with demanding performance criteria set by the remuneration committee (see paragraph 3 below); discretionary bonus based upon trustee and related business performance and the attainment of personal targets; pension provision in a funded non-contributory, Inland Revenue approved, final salary occupational pension scheme; and participation in a Sharesave Scheme. Details of the policy applied in respect of each component are outlined below. These apply to the executive directors only. Non-executive directors receive fees as described at paragraphs 8 and 10 below, but do not receive any other benefits.

The executive directors during the period of this report were:

Mrs C.J. Banszky (managing director)
Mr R.J. Williams (part-time executive director)

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

1. Basic salary

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

The managing director also received non-pensionable cash payments in the form of a car allowance and a payment in lieu of private health cover (she is not a member of the Corporation's scheme). This is included within salary/fees in paragraph 10. Non-cash benefits include private health cover for Mr Williams and life insurance cover and the Disability Insurance Plan for Mrs Banszky.

Mr Williams ceased to be an executive director at 31 December 2004 and became a non-executive director on 1 January 2005. He continues to be paid at his basic executive rate for 2004 until 31 March 2005; thereafter, he will receive standard non-executive fees.

2. General bonus scheme

A cash payment will be made in April 2005 in respect of performance of the trustee and related businesses in 2004. The amount of the payment is not guaranteed from year to year and is calculated by reference to a number of factors relating to the trustee and related businesses, including profitability and the growth in profits. The bonus is paid as a percentage of basic salary, and all qualified employees receive a bonus calculated at the same percentage. In 2005, the general bonus scheme payment will be 9% of basic salary. There are no performance conditions specific to any individual in order to qualify for receipt of a general bonus payment, although certain qualification conditions do apply. In particular a participant must have been employed for at least three months at the close of the financial year. He/she will receive a *pro-rata* payment for the period that he/she was employed during the year, if more than three months but less than 12. Entitlement to the payment will be withdrawn if the participant has given notice, or been given notice, to leave at 24 March 2005. Participants are entitled to place all or part of their general bonus scheme payment into an Inland Revenue approved share incentive plan.

Mrs Banszky is not a participant in the Scheme and Mr Williams will not receive a general bonus because he will not be employed at 24 March 2005.

continued

3. Executive share options

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

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

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

- *Options granted in 2003*
  Options were granted to Mrs Banszky in 2003. These are exercisable from 28 March 2008, but only if the performance conditions are met (these are as above under the heading 'Options granted in 2002' except that the initial testing period is to 31 December 2007).

- *Options granted in 2004*
  Options were granted to Mrs Banszky in 2004. These are exercisable from 2 March 2007 only if the performance conditions are met (these are as above under the heading 'Options granted in 2002', except that the initial testing period is to 31 December 2006, the performance criteria must be met over three years, and there will be no re-testing).

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

During 2004, the board concluded that the executive share option scheme should be discontinued, and that no further options would be granted after 2004. Replacement arrangements are being considered, which will involve demanding performance criteria based on the trustee related businesses. Further details will be announced to shareholders in due course.

No options on shares have been granted to Mr Williams under the executive share option scheme.

4. Senior executive discretionary bonus scheme

Mr Williams and Mrs Banszky are entitled to receive discretionary bonuses (incentive payments) in 2005 at whatever time and of whatever amount the remuneration committee decides is appropriate in its sole and absolute discretion in respect of their performance in 2004. These payments will be made in March 2005 and are £92,000 for Mrs Banszky and £12,600 for Mr Williams. In assessing what bonus or incentive payment should be awarded, account is taken of any factors that the remuneration committee reasonably consider appropriate, including the financial performance and position of the company and performance against any objectives that have been set. There is no contractual entitlement that says an incentive payment must be paid in any given year. Entitlement is normally lost if, on the date that incentive payments are paid, a participant is no longer employed by the Corporation, or either the participant or the Corporation has served notice to terminate employment. However, in the case of

Mr Williams, as part of the terms of his ceasing to perform executive duties, it was agreed that he would receive a final discretionary bonus in respect of his performance during 2004. Incentive payments are not taken into account in calculating pension contributions. The discretionary bonus payment received in 2004 by Mr Williams was £4,000, and by Mrs Banszky was £55,000. Up to the allowable limit, her bonus in respect of 2004 and payable in 2005, will be eligible to be placed in the Corporation's share incentive plan.

5. Save as you earn ("SAYE") sharesave plan 2002 ("the scheme")

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

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

At the end of the five year saving period, participants receive a tax free bonus as stipulated by the Inland Revenue (equal to 3.7 further months' saving for the 2003 issue, 5.4 months for the 2004 issue). 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.

Neither Mrs Banszky nor Mr Williams participated in the 2004 invitation, both being fully invested (contributing £250 per month) from the 2003 invitation. The rules of the Scheme allow Mr Williams to continue making contributions until his current participation vests in 2008, unless he ceases to be a director of the Corporation or any of its subsidiaries before that date, in which case his options may lapse.

6. Pensions provision

Mrs Banszky is a member of the Corporation's funded non-contributory, Inland Revenue approved, final salary occupational scheme. Details of her membership of the scheme are contained in the table in paragraph 11. The rules relating to the earnings cap (currently £102,000 per annum) mean that Law Debenture has to restrict the pension benefit payable to the managing director. Pursuant to her service contract and as compensation for the effect of this restriction, the Corporation pays the managing director a cash non-pensionable amount equal to 20% of the difference between (i) her base salary and (ii) the Inland Revenue permitted maximum for the time being. This amount is paid monthly in arrear accruing from day to day after the deduction of income tax and national insurance.

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

continued

7. Service contracts

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

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

Mr R.J. Williams' contract ended on 31 December 2004.

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

In the event that the Corporation gives the managing director notice to terminate employment within 12 months of any change in control of the company, the company must give not less than 12 months' written notice, and the same arrangements for receiving salary and benefits during this period (including payments 'in lieu') also apply as described above.

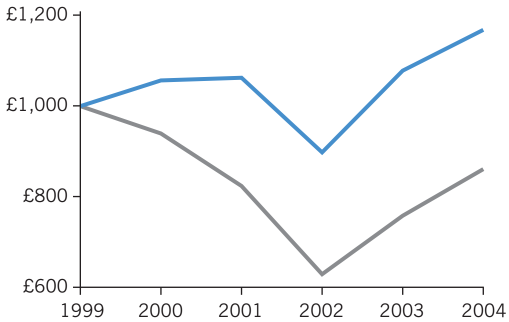
8. Remuneration of non-executive directors

The non-executive directors were paid fees for their services in 2004, as set out in paragraph 10. They may also reclaim travelling expenses.

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

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

9. Performance graph



Law Debenture share price total return, assuming the investment of £1,000 on 31 December 1999 and reinvestment of all dividends (excluding dealing expenses).

FTSE All-Share Index total return assuming notional investment of £1,000 into the index on 31 December 1999 and the reinvestment of all income (excluding dealing expenses).

10. Directors' remuneration 2004 (audited)

	Total salary/fees £	Total bonus £	Benefits other than in cash £	**Total receivable for 2004 £**	Total receivable for 2003 £
Mrs C.J. Banszky	266,634	92,000	990	**359,624**	309,439
Mr A.C. Cates	48,750	–	–	**48,750**	28,749
Mr J. Edwards*	–	–	–	**–**	10,000
Mr K.W.B Inglis	35,000	–	–	**35,000**	25,000
Mr D.C.P. McDougall	55,000	–	–	**55,000**	45,000
Mr R.J. Williams	81,250	12,600	749	**94,599**	74,548
Professor J.A. Kay**	6,538	–	–	**6,538**	–

Notes

1. * Mr Edwards ceased to be a director on 15 April 2003 and remains in the schedule for comparative reasons only.
2. ** Professor Kay was a director for 3 months in 2004.
3. Benefits other than in cash are: private health cover (Mr Williams only), life assurance and Disability Insurance Plan (Mrs Banszky only).
4. Total salary/fees for Mrs Banszky comprises basic salary plus non-pensionable cash allowances (£36,634) as set out in paragraphs 1 and 6.
5. No compensation or fee was paid to any individual who had previously been a director.

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

	Increase in accrued pension during 2004 £ pa	**Accumulated total accrued pension at 31 December 2004 £ pa**	Transfer value as at 31 December 2003 £000	**Transfer value as at 31 December 2004 £000**	Increase in transfer value £000
Mrs C.J. Banszky	**1,795**	**4,938**	32	**53**	21

1. The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 2004.
2. The increase in accrued pension during the year includes any increase for inflation.
3. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
4. No previous directors are, or have been, in receipt of any excess retirement benefits.

12. Executive share option scheme (audited)

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

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

The market price at the beginning of the year was 221.75p: the highest price during the year was 231.5p the lowest price was 197.5p.

continued

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

	Interest as at 31 December 2003	Interest acquired in 2004	Exercise price	Market price at invitation date	Exercised in 2004	**Interest as at 31 December 2004**	Earliest exercise	Latest exercise
Mrs C.J. Banszky	9,237	–	172.40p	204.75p	–	**9,237**	01.08.08	01.02.09
Mr R.J. Williams	9,237	–	172.40p	204.75p	–	**9,237**	01.08.08	01.02.09

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

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

We have audited the financial statements of The Law Debenture Corporation p.l.c. for the year ended 31 December 2004 which comprise the consolidated statement of total return, the statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

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

We review whether the corporate governance statement reflects the Corporation's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Corporation and the Group at 31 December 2004 and of the total return of the Group for the year then ended; and the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

PKF
Registered Auditors
London, UK

28 February 2005

for the year ended 31 December

	Notes	**Revenue 2004 £000**	**Capital 2004 £000**	**Total 2004 £000**	Revenue† 2003 £000	Capital 2003 £000	Total† 2003 £000
Total capital gains from investments	2	**–**	**30,370**	**30,370**	–	41,945	41,945
Income from investments and deposits	3	**10,607**	**–**	**10,607**	9,651	–	9,651
Trustee and related services income	4	**14,909**	**–**	**14,909**	13,568	–	13,568
Underwriting commission and other income		**54**	**–**	**54**	136	–	136
Gross revenue and capital gains		**25,570**	**30,370**	**55,940**	23,355	41,945	65,300
Administrative expenses	5	**(11,916)**	**–**	**(11,916)**	(12,108)	–	(12,108)
Return, including profit on ordinary activities before interest payable and taxation		**13,654**	**30,370**	**44,024**	11,247	41,945	53,192
Interest payable	7	**(2,456)**	**–**	**(2,456)**	(2,456)	–	(2,456)
Return, including profit on ordinary activities before taxation	8	**11,198**	**30,370**	**41,568**	8,791	41,945	50,736
Taxation	9	**(1,106)**	**–**	**(1,106)**	(718)	–	(718)
Return, including profit attributable to ordinary shareholders	8	**10,092**	**30,370**	**40,462**	8,073	41,945	50,018
Dividends on ordinary shares	10	**(8,852)**	**–**	**(8,852)**	(8,061)	–	(8,061)
Transfer to reserves	21	**1,240**	**30,370**	**31,610**	12	41,945	41,957
Return per ordinary share (pence)*	11	**8.62**	**25.95**	**34.57**	6.91	35.91	42.82

† Restated to reflect a minor reclassification between income and administrative expenses.

* No dilutive effect.

Notes
The revenue columns of this statement represent the profit and loss accounts of the Group. All amounts relate to continuing operations.

Statement of total recognised gains and losses

for the year ended 31 December

	Revenue 2004 £000	**Capital 2004 £000**	**Total 2004 £000**	Revenue 2003 £000	Capital 2003 £000	Total 2003 £000
Return for the financial year	**10,092**	**30,370**	**40,462**	8,073	41,945	50,018
Foreign exchange	**(177)**	**–**	**(177)**	(240)	–	(240)
Total gains and losses relating to the year	**9,915**	**30,370**	**40,285**	7,833	41,945	49,778

as at 31 December

	Notes	Group 2004 £000	Group 2003* £000	Corporation 2004 £000	Corporation 2003 £000
Fixed assets					
Tangible	12	**1,048**	1,327	**–**	–
Investments	13	**304,609**	280,573	**299,929**	276,014
		305,657	281,900	**299,929**	276,014
Current assets					
Debtors	14	**7,395**	8,461	**6,641**	5,660
Short term cash investments		**13,842**	3,167	**4,949**	289
Bank balances and short term deposits		**10,491**	11,099	**2,048**	50
		31,728	22,727	**13,638**	5,999
Creditors					
Amounts falling due within one year	15	**(16,463)**	(14,516)	**(55,310)**	(54,923)
Net current assets/(liabilities)		**15,265**	8,211	**(41,672)**	(48,924)
Total assets less current liabilities		**320,922**	290,111	**258,257**	227,090
Creditors					
Amounts falling due after more than one year	16	**(48,222)**	(48,914)	**(285)**	(321)
Provisions for liabilities and charges	17	**–**	(77)	**–**	–
Net assets		**272,700**	241,120	**257,972**	226,769
Capital and reserves					
Called up share capital	18	**5,875**	5,862	**5,875**	5,862
Share capital redemption reserve		**8**	8	**8**	8
Own shares held	18	**(927)**	(567)	**–**	–
Share premium account	19	**7,026**	6,532	**7,026**	6,532
Capital reserves – realised	20	**167,476**	167,467	**167,827**	167,856
Capital reserves – unrealised	20	**78,066**	47,705	**73,504**	43,214
Revenue reserves	21	**15,176**	14,113	**3,732**	3,297
Shareholders' funds – equity	25	**272,700**	241,120	**257,972**	226,769

* Restated (see note 18, note 20 and note 21).

Approved by the board on 28 February 2005 and signed on its behalf by:

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

The attached notes form part of these accounts.

for the year ended 31 December

	Notes	2004 £000	2004 £000	2003 £000	2003 £000
Net cash inflow from operating activities	23		**14,412**		12,674
Servicing of finance					
Debenture interest paid		**(2,450)**		(2,450)	
Bank interest paid		**(6)**		(6)	
			(2,456)		(2,456)
Tax			**(236)**		(510)
Financial investment					
Purchase of own shares		**(360)**		(567)	
Purchase of investments		**(49,917)**		(46,318)	
Sales of investments		**56,444**		40,237	
			6,167		(6,648)
Capital expenditure					
Purchase of tangible fixed assets		**(57)**		(334)	
Sale proceeds from tangible fixed assets		**1**		–	
			(56)		(334)
Equity dividends paid			**(8,238)**		(8,066)
Management of liquid resources					
Cash (placed)/withdrawn on short term deposit			**(10,676)**		7,323
Financing					
Proceeds of increase in share capital			**507**		402
(Decrease)/increase in cash			**(576)**		2,385
Reconciliation of the movement in net debt					
(Decrease)/increase in cash as above			**(576)**		2,385
Cash inflow/(outflow) from liquid resources			**10,676**		(7,323)
			10,100		(4,938)
Exchange movements			**(177)**		(242)
Amortisation of debenture costs			**(27)**		(27)
Net debt brought forward			**(24,910)**		(19,703)
Net debt carried forward	24		**(15,014)**		(24,910)

1 Statement of accounting policies

Convention

The financial statements have been prepared on the historical cost basis of accounting modified to include the revaluation of listed investments. The financial statements have been prepared in accordance with applicable accounting standards and with the "Statement of Recommended Practice – Financial Statements of Investment Trust companies 2003" (SORP). All of the Group's operations are of a continuing nature.

Basis of consolidation

The Group financial statements incorporate the financial statements of The Law Debenture Corporation p.l.c. and its subsidiaries made up to the end of the financial year.

Recognition of income and expenses

(a) Investment trust: Dividends receivable from equity shares are taken to the revenue account on an ex-dividend basis; interest payable and receivable are accounted for on an accruals basis; expenses which are incidental to the purchase or sale of an investment are included within the cost or deducted from the proceeds of the investment; expenses of the investment trust are all allocated to revenue.

(b) Trustee and related services: Bank deposit interest receivable, recurring fees receivable, administration expenses and interest payable are all accounted for on an accruals basis; where single payments are received relating to trusteeships with a duration of one or more years, that part relating to the year of receipt is accounted for on an accruals basis with the balance deferred into future years on a discounted basis; fees calculated by reference to time spent are credited on completion of the work. Other recoveries and expenses are not included as income or expense.

Tangible fixed assets

Tangible fixed assets are recorded at historic purchase cost less accumulated depreciation. Depreciation has been calculated to write off the cost of all tangible fixed assets over the estimated useful lives of the relevant assets as follows:

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

Listed investments

The market valuation of listed investments is based on closing middle market prices except own shares which are included at cost. No taxation or expenses which might result from a sale of the investments at the balance sheet date have been taken into account.

Unlisted investments

Unlisted investments are included at cost.

Deferred income

Trustee fees received in respect of periods subsequent to the balance sheet date are carried forward as deferred income.

Capital reserves

Realised and unrealised capital gains and losses, together with exchange differences arising on the translation of foreign currency assets and liabilities, are reflected through capital reserves. Exchange differences arising on the translation of net assets of overseas subsidiaries are also taken to capital reserves.

Foreign currencies

Transactions recorded in foreign currencies during the year are translated into sterling at the exchange rate ruling on the date of the transaction. Results of overseas subsidiaries are translated into sterling at the balance sheet rates. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rate ruling at that date.

Operating leases

Rentals under operating leases are charged on a straight line basis over the life of the lease term.

Financial instruments

In accordance with FRS 4 "Capital Instruments", long term borrowings are stated at the amount of net proceeds immediately after issue. The finance costs on such borrowings, being the difference between the net proceeds of a borrowing and the total payments that may be required in respect of that borrowing, are allocated to periods over the term of the debt at a constant rate on the carrying amount.

Liquid resources

For the purposes of analysing assets, liquid resources include all readily realisable short-term investments such as in money market funds as well as bank deposits.

continued

1 Statement of accounting policies continued

Pension plan
Contributions to the Corporation's pension plan are charged to the revenue account so as to spread the cost of pension benefits over employees' expected working lives with the Corporation.

Deferred taxation
Deferred taxation is provided for using the full provision method. Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Own shares held
In accordance with UITF38 "Accounting for ESOP trusts", investments in own shares are held at cost and shown as a deduction from shareholders' funds. This is a change in accounting policy (see note 18).

2 Total capital gains/(losses) from investments

	2004 £000	2003 £000
Realised gains/(losses) based on historical cost	**9**	(171)
Amounts recognised as unrealised in previous years	**286**	1,794
Realised gains based on carrying value at previous balance sheet date	**295**	1,623
Unrealised profits on investments	**30,268**	40,556
	30,563	42,179
Transfers to revenue	**(193)**	(234)
	30,370	41,945

3 Income from investments and deposits

	2004 £000	2003 £000
UK		
Listed dividends		
– Dividend income	**8,021**	7,259
– Special dividends	**159**	150
Interest	**920**	786
	9,100	8,195
Overseas		
Dividends	**1,391**	1,431
Special dividends	**91**	–
Interest	**25**	25
	1,507	1,456
Total	**10,607**	9,651

4 Trustee and related services income

	2004 £000	2003 £000
Geographical analysis by location of client		
United Kingdom	**7,779**	7,343
Overseas	**7,130**	6,225
	14,909	13,568

5 Administrative expenses

	2004 £000	2003 £000
Administrative expenses include:		
Salaries and directors' fees	**5,793**	5,772
Social security costs	**511**	486
Other pension costs	**1,054**	1,133
Investment management fee	**708**	629
Depreciation and loss on sale	**335**	270
Office rent	**1,005**	1,082
Auditors' remuneration*	**63**	74

* Including the Corporation £13,900 (2003: £12,300).

During the year, the Corporation employed an average of 80 staff (2003: 79). All staff are engaged in the provision of trustee and related services. Salaries and directors' fees includes redundancy and other related payments of £47,000 (2003: £334,000).

Other fees paid to the auditors during the year amounted to £57,000 (2003: £54,000) in respect of taxation and other regulatory services. These figures do not include fees receivable by the auditors for work undertaken by them in connection with trusts (for example, pension funds) of which a member of the Group acts as trustee and whose trust deed requires or permits professional advice to be obtained or audits to be undertaken. These figures do not include fees for audits of certain trusts of which a member of the Group is a trustee, where the trustee has voluntarily commissioned an audit.

6 Remuneration of directors

	2004 £000	2003 £000
Directors' emoluments, which comprise the following, are included in administrative expenses:		
Directors' fees	**145**	144
Management remuneration	**454**	385
	599	529

The emoluments of the highest paid director totalled £381,000 (2003: £327,000) and included pension contributions of £21,000 (2003: £18,000) and amounts accrued under the terms of the employee bonus plan of £92,000 (2003: £55,000). Her accrued pension entitlement is as follows:

	2004 £000
Increase during 2004 including inflation increase	**2**
Accumulated total accrued pension at 31 December 2004	**5**
Transfer value of increase in accrued pension based on actuarial advice	**21**

Annual pension entitlements shown above are based upon service up to 31 December 2004 and do not include any additional voluntary contributions. There are no other directors for whom there is an accrued pension entitlement.

Details of options held and the emoluments of each director are shown in the remuneration report starting on page 30.

continued

7 Interest payable

	2004 £000	2003 £000
Interest on debenture stock	**2,450**	2,450
Interest on multi-currency bank loans	**–**	4
Interest on bank overdrafts	**6**	2
	2,456	2,456

8 Segmental analysis

2004	**Investment trust £000**	**Trustee and related services £000**	**Total 2004 £000**
Revenue	**9,716**	**14,909**	**24,625**
Administrative expenses	**(1,487)**	**(10,429)**	**(11,916)**
	8,229	**4,480**	**12,709**
Interest (net)	**(2,151)**	**640**	**(1,511)**
Return, including profit on ordinary activities before taxation	**6,078**	**5,120**	**11,198**
Taxation	**(153)**	**(953)**	**(1,106)**
Return, including profit attributable to shareholders	**5,925**	**4,167**	**10,092**
Net assets	**257,972**	**14,728**	**272,700**
Return per ordinary share (pence)	**5.06**	**3.56**	**8.62**

2003	Investment trust £000	Trustee and related services £000	Total 2003 £000
Revenue	8,976	13,568	22,544
Administrative expenses	(1,391)	(10,717)	(12,108)
	7,585	2,851	10,436
Interest (net)	(2,157)	512	(1,645)
Return, including profit on ordinary activities before taxation	5,428	3,363	8,791
Taxation	(163)	(555)	(718)
Return, including profit attributable to shareholders	5,265	2,808	8,073
Net assets	226,769	14,351	241,120
Return per ordinary share (pence)	4.51	2.40	6.91

9 Taxation

	2004 £000	2003 £000
Taxation based on revenue for the year, comprises:		
UK corporation tax at 30%	**1,019**	499
Adjustment in respect of prior years	**46**	42
	1,065	541
Overseas tax:		
Current tax on income for the year	**183**	189
Adjustments in respect of prior periods	**(30)**	(26)
Total current tax charge	**1,218**	704
Deferred tax	**(112)**	14
	1,106	718
Return on ordinary activities before tax	**11,198**	8,791
Tax on ordinary activities at standard rate 30%	**3,359**	2,637
Effects of:		
Expenses not deductible for tax purposes	**28**	24
Capital allowances in period different to depreciation	**2**	(19)
Tax credit on dividend income	**(2,453)**	(2,138)
Adjustments in respect of prior periods	**46**	42
Unrelieved withholding tax	**128**	132
Recovery of overseas tax	**(30)**	(26)
Losses on overseas companies for which no tax relief arises	**18**	104
Other differences	**8**	(38)
	1,106	718

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

10 Dividends on ordinary shares

	2004 £000	2003 £000
Dividends on ordinary shares comprise the following:		
Interim 2.80p (2003: 2.66p)	**3,293**	3,105
Proposed final 4.75p (2003: 4.24p)	**5,559**	4,956
Total for year 7.55p (2003: 6.90p)	**8,852**	8,061

Dividends have been waived in respect of the 479,303 (2003: 316,128) shares owned by the Employee Share Ownership Trust ("ESOT") (see note 18).

continued

11 Return per share

Revenue return, including profit per share, is based on profits attributable of £10,092,000 (2003: £8,073,000).

Capital return per share is based on net capital gain for the year of £30,370,000 (2003: £41,945,000).

The calculations of both revenue and capital returns per share are based on 117,015,421 (2003: 116,808,844) shares, being the weighted average number of shares in issue during the year after adjusting for shares owned by the ESOT. Diluted revenue and capital returns per share are calculated using 117,200,812 (2003: 116,903,147) shares being the diluted weighted average number of shares in issue during the year assuming exercise of options at less than fair value, and the revenue and capital returns shown above.

12 Tangible fixed assets

			Group
	Leasehold improvements £000	Office furniture & equipment £000	Total £000
Cost			
At 1 January 2004	747	1,390	2,137
Additions at cost	19	38	57
Disposals at cost	(9)	(187)	(196)
At 31 December 2004	**757**	**1,241**	**1,998**
Accumulated depreciation			
At 1 January 2004	145	665	810
Charge	53	247	300
Disposals	(1)	(159)	(160)
At 31 December 2004	**197**	**753**	**950**
Net book value at 31 December 2004	**560**	**488**	**1,048**
Net book value at 31 December 2003	602	725	1,327

The Corporation holds no tangible fixed assets.

13 Investments

	Group 2004 £000	Group 2003* £000	Corporation 2004 £000	Corporation 2003 £000
Summary				
Listed on recognised stock exchanges at market value:				
In United Kingdom	**223,918**	197,651	**219,434**	193,217
Overseas	**51,718**	54,397	**51,718**	54,397
	275,636	252,048	**271,152**	247,614
Open ended investment companies	**28,687**	28,230	**28,687**	28,230
Unlisted at cost	**286**	295	**–**	80
	304,609	280,573	**299,839**	275,924
Shares in subsidiary undertakings at cost	**–**	–	**90**	90
Total Investments	**304,609**	280,573	**299,929**	276,014

	Group £000	Corporation £000
Changes in investments – portfolio		
Market value of investments at 1 January 2004	**280,573**	**275,924**
Unrealised net appreciation at 1 January 2004	**(47,969)**	**(43,478)**
Cost of investments at 1 January 2004	**232,604**	**232,446**
Additions at cost	**49,917**	**49,867**
Disposals at cost	**(56,435)**	**(56,435)**
Cost of investments at 31 December 2004	**226,086**	**225,878**
Unrealised net appreciation at 31 December 2004	**78,523**	**73,961**
Market value of investments at 31 December 2004	**304,609**	**299,839**

* Restated (see note 18).

Included in unlisted investments in the Group balance sheet are companies which are held in connection with the Group's trustee business and in which the Group holds all their voting rights. These companies have not been included in the Group consolidation as the Corporation has only a fiduciary interest. The Group received a fee of £273,500 (2003: £187,000) in respect of these companies.

There were no amounts outstanding with these companies at the year end (2003: nil).

continued

13 Investments continued

The Corporation, or a subsidiary thereof, owns all the issued share capital of the following principal subsidiaries. All subsidiaries are registered in England and Wales unless otherwise stated. All of the subsidiaries listed below are included in the consolidated financial statements. Other than Law Debenture Finance p.l.c., a group financing company, all subsidiaries are engaged in the provision of trustee and related services.

L.D.C. Trust Management Limited
† Law Debenture Corporate Services Limited
† Law Debenture Corporate Services Inc (Incorporated in New York)
† Law Debenture Finance p.l.c.
† Law Debenture Guarantee Limited
† Law Debenture Holding Inc. (Incorporated in New York)
† Law Debenture Investment Management Limited
† Law Debenture Trust (Asia) Limited (incorporated in Hong Kong)
† Law Debenture Trust Corporation of New York (Incorporated in New York)
† Law Debenture Trustees Limited
† LDC D R Trustee Limited
† The Law Debenture Corporation (Deutschland) Limited
The Law Debenture Corporation (H.K.) Limited (incorporated in Hong Kong)
† The Law Debenture Intermediary Corporation p.l.c.
† The Law Debenture Pension Trust Corporation p.l.c.
† The Law Debenture Trust Corporation p.l.c.
† The Law Debenture Trust Corporation (Cayman) Limited (incorporated in the Cayman Islands)
† The Law Debenture Trust Corporation (Channel Islands) Limited (incorporated in Jersey)

† Shares held by a subsidiary.

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

14 Debtors

	Group		Corporation	
	2004 £000	2003 £000	**2004 £000**	2003 £000
Due within one year:				
Corporation and other taxes recoverable	**–**	295	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**4,058**	3,350
Trustee expenses recoverable	**1,832**	2,504	**39**	3
Prepayment and accrued income	**5,038**	5,034	**1,194**	1,165
Deferred tax asset (see note 17)	**35**	–	**–**	–
Other debtors	**484**	617	**1,344**	1,133
	7,389	8,450	**6,635**	5,651
Due after more than one year:				
Prepayments	**6**	11	**6**	9
	7,395	8,461	**6,641**	5,660

15 Creditors: amounts falling due within one year

	Group		Corporation	
	2004 £000	2003 £000	**2004 £000**	2003 £000
Borrowings (note 26)	**144**	–	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**47,974**	48,869
Corporation tax	**736**	202	**–**	–
Other taxation including social security costs	**162**	181	**311**	178
Trustee expenses payable	**2,823**	2,863	**–**	–
Accruals	**1,490**	958	**1,427**	898
Deferred income	**4,240**	4,250	**14**	14
Proposed final dividend	**5,571**	4,957	**5,571**	4,957
Other creditors	**1,297**	1,105	**13**	7
	16,463	14,516	**55,310**	54,923

16 Creditors: amounts falling due after more than one year

	Group		Corporation	
	2004 £000	2003 £000	**2004 £000**	2003 £000
Borrowings (note 26)	**39,203**	39,176	**–**	–
Deferred income	**9,019**	9,738	**285**	321
	48,222	48,914	**285**	321

17 Provision for liabilities and charges

	Group		Corporation	
	2004 £000	2003 £000	**2004 £000**	2003 £000
Deferred tax				
At 1 January 2004	**77**	63	**–**	–
(Credit)/charge in year	**(112)**	14	**–**	–
Transfer to debtors (note 14)	**35**	–	**–**	–
At 31 December 2004	**–**	77	**–**	–
Accelerated capital allowances	**71**	77	**–**	–
Short-term timing differences	**(106)**	–	**–**	–
At 31 December 2004	**(35)**	77	**–**	–

18 Share capital

	2004 £000	2003 £000
Authorised share capital		
133,000,000 ordinary shares of 5p each	**6,650**	6,650
Allotted, issued and fully paid share capital		
117,515,415 (2003: 117,249,585) ordinary shares of 5p each	**5,875**	5,862

continued

18 Share capital continued

During the year to 31 December 2004, 265,830 shares were allotted under the SAYE Scheme and Executive Share Option Scheme for a total consideration of £507,244 which includes a premium of £493,953.

During the year, 38,979 options were granted under the Corporation's SAYE scheme and 175,543 under the Executive Share Option Scheme. At 31 December 2004, options under the schemes exercisable from 2004 to 2011 at prices ranging from 162.6p to 245.8p per share were outstanding in respect of 1,453,657 ordinary shares (2003: 3,038,588) ordinary shares. During 2004, 1,538,834 options lapsed or were cancelled (2003: 823,127).

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

	2004 £000	2003 £000
Own shares held		
Own shares held – cost	**(927)**	(567)

The own shares held represent the cost of 479,303 (2003: 316,128) 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. The dividends relating to the shares have been waived. The market value of the shares at 31 December 2004 was £1,114,000 (2003: £701,000).

The balance sheet has been restated to reflect the change in accounting policy in respect of own shares held. Own shares held were included in fixed asset investments and are now shown as a deduction from shareholders' funds.

19 Share premium account

	2004 £000	2003 £000
At 1 January 2004	**6,532**	6,141
Issue of shares	**494**	391
At 31 December 2004	**7,026**	6,532

20 Capital reserves

	Unrealised appreciation £000	**Realised reserves £000**	**Total £000**
Group			
At 1 January 2004*	47,705	167,467	215,172
Transfer on disposal of investments	286	(286)	–
Net gains on investments	30,268	295	30,563
Transfers to revenue	(193)	–	(193)
At 31 December 2004	**78,066**	**167,476**	**245,542**
Corporation			
At 1 January 2004	43,214	167,856	211,070
Transfer on disposal of investments	286	(286)	–
Net gains on investments	30,197	257	30,454
Transfers to revenue	(193)	–	(193)
At 31 December 2004	**73,504**	**167,827**	**241,331**

* Opening Group capital reserves have been restated in respect of foreign exchange differences and goodwill.

Transfers from unrealised appreciation, in respect of income on the OIECs, to revenue totalled £457,000 (2003: £264,000).

Cumulative goodwill of £325,000 relating to companies presently within the Group was written off directly to realised capital reserves in prior periods. It would be charged to the profit and loss account on any subsequent disposal of the business. No goodwill has arisen since the implementation of FRS 10.

21 Revenue reserves

	Group £000	Corporation £000
At 1 January 2004*	14,113	3,297
Foreign exchange	(177)	–
Net revenue retained for the year	1,240	435
At 31 December 2004	**15,176**	**3,732**

* Opening Group revenue reserves have been restated in respect of foreign exchange differences.

As permitted by section 230 of the Companies Act 1985, the Corporation has not presented its own revenue account. The revenue return, including profit on ordinary activities, after taxation for the Corporation amounted to £9,287,000 (2003: £8,005,000).

22 Financial instruments

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

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

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

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

- **market price risk**, arising from uncertainty in the future value of financial instruments. The board maintains policy guidelines whereby a spread of investments in different sectors and geographical regions reduces the risk arising from factors relating to a particular industry or country. In addition the stock selections and transactions are actively monitored throughout the year by the investment manager, who reports to the board on a regular basis to review past performance and develop future strategy.

- **foreign currency risk**, arising from movements in currency rates applicable to the Group's investment in equities and fixed interest securities and the net assets of the Group's overseas subsidiaries denominated in currencies other than sterling. Risks are reduced by an international spread of investments. The Group's financial assets denominated in currencies other than sterling were:

	Investments 2004 £m	**Net monetary assets 2004 £m**	**Total currency exposure 2004 £m**	Investments 2003 £ m	Net monetary assets 2003 £ m	Total currency exposure 2003 £ m
US Dollar	**18.2**	**2.1**	**20.3**	19.3	2.1	21.4
Canadian Dollar	**0.7**	**–**	**0.7**	–	–	–
Euro	**26.7**	**0.2**	**26.9**	29.3	–	29.3
Danish Krone	**2.6**	**–**	**2.6**	1.7	–	1.7
Swedish Kroner	**1.0**	**–**	**1.0**	1.3	–	1.3
Swiss Franc	**4.8**	**–**	**4.8**	5.1	–	5.1
Hong Kong Dollar	**–**	**0.4**	**0.4**	–	0.3	0.3
	54.0	**2.7**	**56.7**	56.7	2.4	59.1

The holdings in the Henderson Japan Capital Growth and Pacific Capital Growth OEICs are denominated in sterling but have underlying assets in foreign currencies equivalent to £28.7million (2003: £28.2 million).

- **liquidity risk**, arising from any difficulty in realising assets or raising funds to meet commitments associated with any of the above financial instruments. To minimise this risk, the board's policy guidelines only permit investment in equities and fixed interest securities quoted in major financial markets. In addition, cash balances and overdraft facilities are maintained commensurate with likely future settlements. The maturity of the Group's existing borrowings is set out in note 26. The Group has a multi-currency loan facility of £10 million which was undrawn at 31 December 2004.

continued

22 Financial instruments continued

- **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 2004 was:

	Sterling £m	HK Dollars £m	US Dollars £m
Fixed rate assets	–	–	–
Floating rate assets	21.8	0.4	2.1
Fixed rate liabilities*	39.2		
Floating rate liabilities	0.1		
Weighted average fixed rate	6.125%		

* Fixed for 30 years.

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

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

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

	2004 £000	2003 £000
Return including profit before interest payable and taxation	**13,654**	11,247
Depreciation charge	**300**	270
Loss on sale of fixed asset	**35**	–
Decrease in debtors	**806**	218
(Decrease)/increase in creditors	**(37)**	1,336
Transfer from capital reserves	**(193)**	(234)
UK and overseas withholding tax deducted at source	**(153)**	(163)
Net cash inflow from operating activities	**14,412**	12,674

24 Analysis of net debt

	31 December 2003 £000	**Cashflow £000**	**Amortisation of costs £000**	**Currency exchange £000**	**31 December 2004 £000**
Bank balances and short term deposits	11,099	**(432)**	**–**	**(176)**	**10,491**
Overdrafts	–	**(144)**	**–**	**–**	**(144)**
Total	11,099	**(576)**	**–**	**(176)**	**10,347**
Debt due after one year	(39,176)	**–**	**(27)**	**–**	**(39,203)**
Current asset investments	3,167	**10,676**	**–**	**(1)**	**13,842**
Net debt	(24,910)	**10,100**	**(27)**	**(177)**	**(15,014)**

25 Reconciliation of movement in shareholders' funds

	2004 £000	2003 £000
At 1 January	**241,120**	199,568
Total return after dividend	**31,433**	41,717
Proceeds of issue of ordinary shares	**507**	402
Own shares acquired	**(360)**	(567)
Shareholders funds at 31 December	**272,700**	241,120

The calculation of net asset value is based upon shareholders' funds of £ 272,700,000 (2003: £241,120,000) divided by 117,036,112 (2003: 116,933,457) shares in issue at 31 December each year, after deducting for own shares held. The fully diluted net asset value is based upon the diluted number of shares in issue of 117,148,846 (2003: 117,038,718) shares, assuming exercise of options at less than fair value.

26 Borrowings

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

	Group		Corporation	
	2004 £000	2003 £000	2004 £000	2003 £000
Unsecured borrowings falling due within one year:				
Overdrafts	**144**	–	**–**	–
Borrowings falling due after more than one year:				
Secured				
6.125% guaranteed secured bonds 2034	**39,203**	39,176	**–**	–

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

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

27 Contingent liabilities

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

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

continued

28 Lease commitments

At 31 December 2004 the Group had annual commitments under non-cancellable operating leases which expire as follows:

	Land and buildings 2004 £000	**Other 2004 £000**	**Total 2004 £000**	Total 2003 £000
Less than one year	**–**	**50**	**50**	51
2-5 years	**115**	**31**	**146**	78
More than 5 years	**908**	**–**	**908**	1,082
	1,023	**81**	**1,104**	1,211

29 Pension commitments

The Corporation operates a funded non-contributory defined benefit pension plan in the UK. The assets of the plan are held separately from those of the Corporation and are invested in managed funds operated by insurance companies. Contributions are charged to the statement of total return in accordance with SSAP 24, so as to spread the cost of pensions over employees' expected working lives with the Corporation. The contributions of the Corporation to the plan are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The last completed valuation was at 31 December 2002.

The pension charge for the year was £1,054,000 (2003: £1,133,000) which as a percentage of pensionable salary, in accordance with valuations by the actuary, is as follows:

2002	25.0%
2003	28.8%
2004	28.8%

The major assumptions in the 31 December 2004 disclosure under FRS 17 are shown below and are applied to membership data supplied at that date. This shows the net pension assets and liabilities that would be disclosed if the new accounting standard had been adopted early.

	2004 %	2003 %
RPI inflation	**2.9**	2.7
Discount rate	**5.3**	5.4
Pensions increases in payment	**2.7**	2.7
General salary increases	**4.9**	4.7

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

	2004 Expected return %	**2004 £000**	2003 Expected return %	2003 £000
Equities	**7.5**	**10,549**	7.7	10,351
Bonds	**5.3**	**1,529**	5.4	1,499
Gilts	**4.5**	**2,948**	4.8	1,345
Property	**6.0**	**627**	6.3	359
Cash	**4.5**	**(43)**	4.6	89
Pensioner annuities	**5.3**	**1,052**	5.4	966
Total market value of assets		**16,662**		14,609
Present value of liability		**(24,010)**		(20,222)
Deficit in the plan		**(7,348)**		(5,613)
Related deferred tax asset at 30%		**2,204**		1,684
Net pension liability		**(5,144)**		(3,929)

29 Pension commitments continued

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

	2004 £000	2003 £000
Net assets excluding pension liability	**272,700**	241,120
Pension liability	**(5,144)**	(3,929)
Net assets including pension liability	**267,556**	237,191
Capital reserves excluding pension liability	**245,542**	215,172
Pension liability	**(5,144)**	(3,929)
Capital reserves including pension liability	**240,398**	211,243
Administrative expenses current service cost		
Current service cost	**(811)**	(952)
Other finance income		
Expected return on pension plan assets	**1,030**	812
Interest on pension plan liabilities	**(1,096)**	(1,014)
Net return	**(66)**	(202)
Statement of total returns gains and losses		
Actual return less expected return on pension plan assets	**771**	1,592
Experience (losses)/gains arising on plan liabilities	**(62)**	130
Changes in assumptions underlying the present value of plan liabilities	**(2,475)**	(1,014)
	(1,766)	708
Movement in plan deficit during the year		
– Deficit in plan at beginning of the year	**(5,613)**	(6,256)
– Movement in year:		
Current service cost (total)	**(811)**	(952)
Aggregate contributions	**908**	1,089
Other finance income	**(66)**	(202)
Actuarial (loss)/gain as above	**(1,766)**	708
Deficit in plan at end of year	**(7,348)**	(5,613)
History of experience gains and losses		
Difference between expected and actual return on plan assets:		
– Gain	**771**	1,592
– Percentage of scheme assets	**5%**	11%
– Experience (loss)/gain on plan liabilities	**(62)**	130
– Percentage of the present value of the plan liabilities	**–**	1%
– Total amount that would be recognised in STRGL in future years (loss)/gain	**(1,766)**	708
– Percentage of the present value of plan liabilities	**(7%)**	4%

Investment trust status

The Corporation carries on business as an investment trust company as defined in section 842(1) of the Income and Corporation Taxes Act 1988. The directors will endeavour to conduct its affairs so as to enable it to maintain Inland Revenue approval of the Corporation's status in this respect. So far as the directors are aware, the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Corporation.

Capital gains tax

For shareholders who have purchased their shares through a share savings scheme on a monthly basis and who wish to apply the Inland Revenue's optional basis of valuing holdings as if they had all been purchased in July, guidance notes have been prepared by the AITC and are available from the company secretary on request.

Company share information

Information about the Corporation can be found on its internet web site **http://www.lawdeb.com**. The market price of its ordinary shares is published in the *Financial Times*, *The Times*, *The Daily Telegraph*, *The Guardian*, *The Independent*, the *Daily Mail* and the *London Evening Standard*.

Individual savings account ("ISA")

For investors seeking a tax efficient method of investing in the shares of the Corporation. The Plan Manager is National Westminster Bank Plc and can be contacted at:

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

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

Financial calendar

Dividend and interest payments

Ordinary shares	
Interim announced July	Paid September
Final announced February	Paid April
6.125% guaranteed secured notes	Paid April and October

Group results

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

Payment methods for dividends

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

The 115th annual general meeting of The Law Debenture Corporation p.l.c. will be held at 10.30am on Tuesday 12th April 2005 at the Brewers Hall, Aldermanbury Square, London EC2V 7HR. A map of the venue is shown on the inside back cover.

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

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the one hundred and fifteenth annual general meeting of the Corporation will be held on 12 April 2005 at 10.30am at the Brewers Hall, Aldermanbury Square, London EC2V 7HR for the following purposes:

Ordinary business

1. To receive the report of the directors and the audited accounts for the year ended 31 December 2004.

2. To receive and approve the directors' remuneration report for the year ended 31 December 2004.

3. To declare a final dividend of 4.75 pence per share in respect of the year ended 31 December 2004.

4. To elect Professor J.A. Kay as a director.

5. To re-elect Mr R.J. Williams as a director.

6. To re-elect Mrs C.J. Banszky as a director.

7. To reappoint PKF 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:

8. General authority to buy back shares

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

(a) the maximum number hereby authorised to be purchased shall be limited to 17,615,560 shares, or if less, that number of shares which is equal to 14.99% of the Corporation's issued share capital as at the date of the passing of this resolution;

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

(c) the maximum price which may be paid for a share shall be an amount equal to 105% 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; and

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

continued

9. General authority to allot shares

THAT:

(a) the directors be generally and unconditionally authorised pursuant to and in accordance with section 80 of the Companies Act 1985 to exercise for the period ending on the date of the Corporation's next Annual General Meeting, all the powers of the Corporation to allot relevant securities (as defined in section 80(2) of the said Act) up to an aggregate nominal amount of £293,788; and

(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.

10. Disapplication of statutory pre-emption rights

THAT:

(a) in exercise of the authority given to the directors by resolution 9 above, the directors be empowered to allot equity securities (as defined in section 94(2) of the said Act) for the period ending on the date of the Corporation's next Annual General Meeting wholly for cash generally up to an aggregate nominal amount of £293,788 as if section 89(1) of the said Act did not apply to such allotment; and

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

By order of the board

Law Debenture Corporate Services Limited
Secretary

28 February 2005

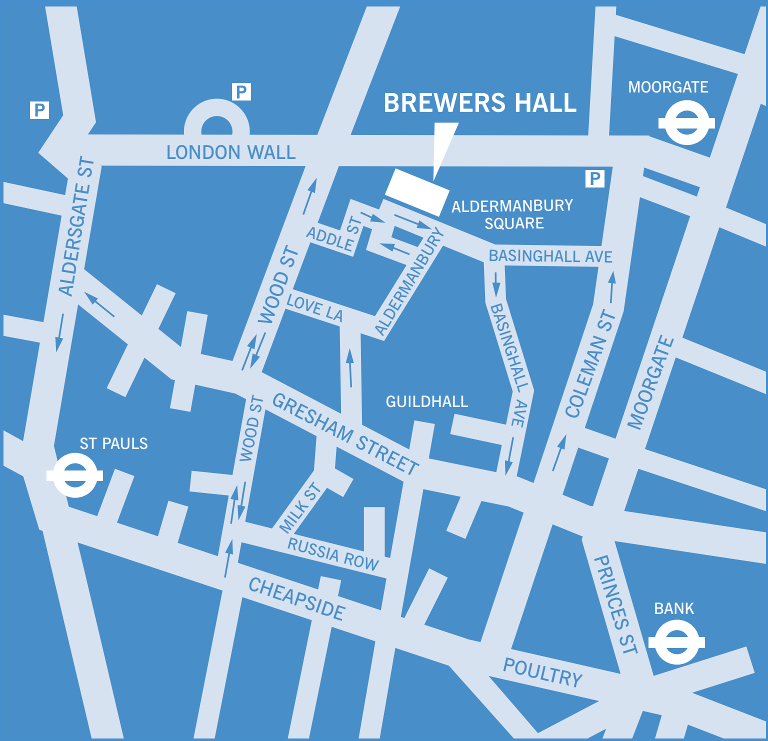
Registered office:
Fifth Floor
100 Wood Street
London EC2V 7EX
Registered No. 30397

1. A member who holds ordinary shares on the register of members and is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his or her place. A proxy need not be a member of the Corporation.
2. If you hold your shares on the register of members (as opposed to holding them in a nominee), you will find enclosed a form of proxy for use at the meeting. To be valid, forms of proxy must be lodged at the office of the Corporation's registrar, Computershare Investor Services plc, PO Box 1075, Bristol BS99 3ZZ, not less than 48 hours before the time appointed for the holding of the meeting. Lodgement of a form of proxy will not prevent a member from attending and voting in person.
3. In accordance with the requirements of the Companies Act 1985, the register of directors' interests will be available for inspection at the registered office of the Corporation during normal business hours and at the annual general meeting. No director has a service contract with the Corporation of more than one year's duration.
4. Subject to the dividend on the ordinary shares now recommended being approved at the annual general meeting, dividends will be paid on 19 April 2005 to shareholders on the register on the record date on 18 March 2005.
5. Resolution 2 is to receive and approve the directors' remuneration report for the year ended 31 December 2004. The remuneration report is set out at pages 30 to 36 of the annual report of the Corporation.
6. Resolution 4: Professor J.A. Kay, who was appointed as a director on 28 September 2004, is required under the articles of association to retire and to offer himself for election at the next annual general meeting. His detailed biography is included on page 5. The board supports the election of Professor Kay as he has already demonstrated since appointment that he can enhance the work of the board by contributing fully to discussions at board and committee level.
7. Resolution 5: Mr R.J. Williams, having become a non-executive director as at 1 January 2005, and having served more than nine years on the board, is required under the Code on Corporate Governance to stand for annual re-election. The board supports his re-election because Mr Williams has provided good service as an executive director, as evidenced in his appraisal by the chairman, and the board remains confident that as a non-executive, he will continue to provide valuable advice on a range of matters connected both with the investment trust and the trustee business. His detailed biography is included on page 5 of the annual report.
8. Resolution 6: Mrs C.J. Banszky is required under the articles of association to retire and to offer herself for re-election, it being three years since her last re-election. The board supports her re-election because she has continued to perform well as managing director as evidenced in her appraisal by the chairman, and makes a full and valuable contribution to the board. Her detailed biography is included on page 5 of the annual report.
9. Resolution 7 is to re-appoint PKF as the Corporation's auditors. PKF have been the Corporation's auditors since October 2002.
10. Special resolution 8 renews the authority given to directors at the last annual general meeting to purchase ordinary shares in the market for cancellation. Such purchases at appropriate times and prices could be a suitable method of enhancing shareholder value and would be applied within guidelines set from time to time by the board. It should be noted that no such purchases would be undertaken if shares were trading at or near a premium to net asset value.

continued

11. Special resolution 9 renews the authority given to directors at the last annual general meeting to allot unissued capital not exceeding 5,875,770 shares, being 5% of the issued share capital. This authority is sought principally to allow the directors to satisfy demand for shares from participants in the Personal Equity Plan and Individual Savings Account, and would be exercised only at times when it would be advantageous to the Corporation's shareholders to do so. Shares would not be issued under this authority at a price lower than net asset value at the time of the issue. If approved, the authority will continue to operate until the next annual general meeting.

12. Special resolution 10 is proposed because the directors consider that in order to allot shares in the circumstances described in special resolution 9 it is in the best interests of the Corporation and its shareholders to allot a maximum of 5,875,770 shares other than on a pre-emptive basis.



AGM Venue
Brewers Hall
Aldermanbury Square
London EC2V 7HR

Tel: 020 7606 1303

Designed and produced by paperwork

www.lawdeb.com