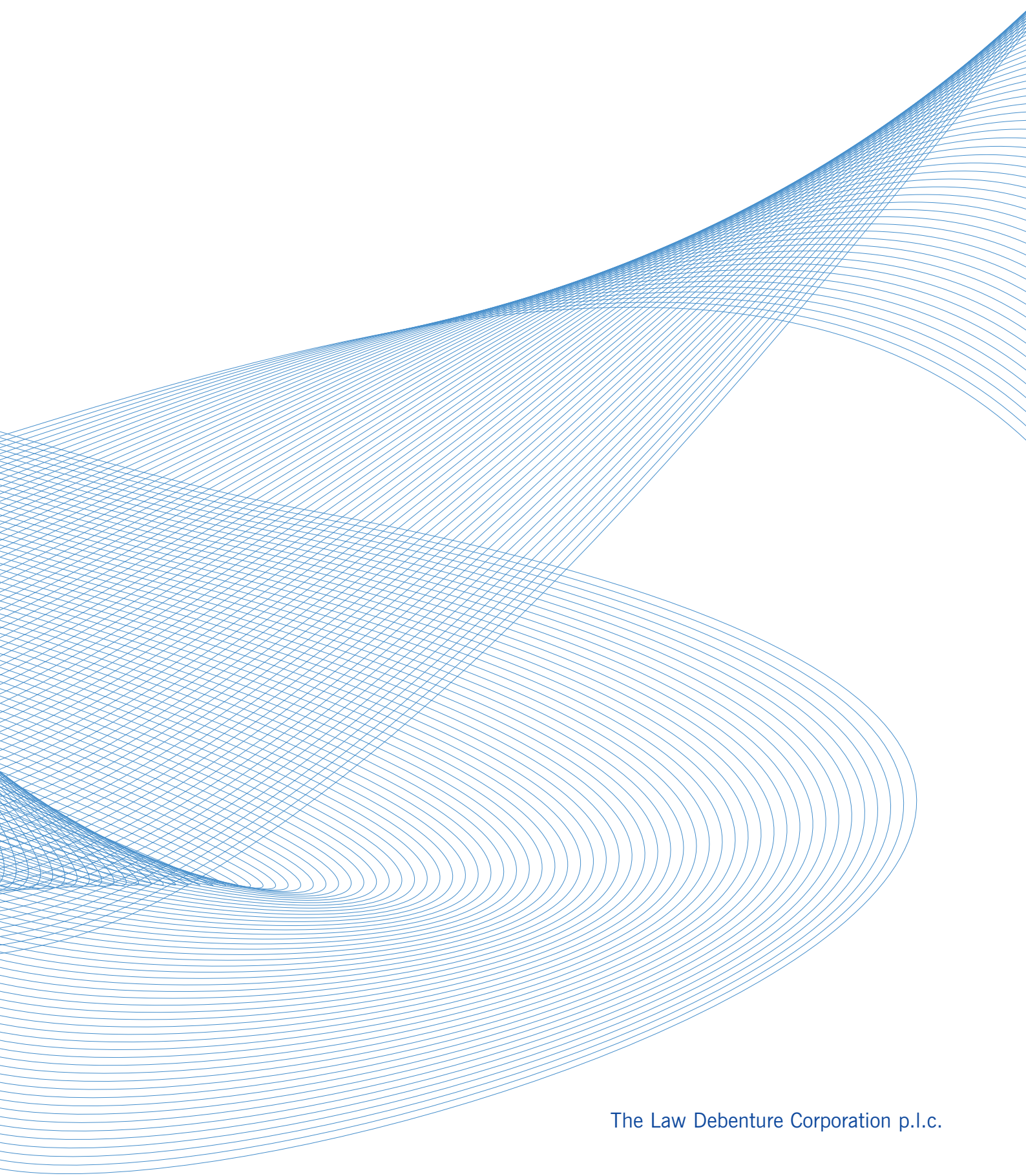


Law Debenture



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

Investment trust

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

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

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

Independent fiduciary services

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

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

2 10 year record

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net assets (£m)	233.0	250.2	287.6	294.6	260.3	199.6	241.7	272.5	339.6	392.6	407.1
Total return ¹ (pence)	41.5	20.8	38.9	12.9	(22.7)	(43.8)	44.2	34.4	64.7	53.1	23.6
Earnings ¹ (pence)											
Investment trust	5.46	5.62	5.57	5.45	4.07	4.10	4.51	5.06	5.73	7.07	8.60
Independent fiduciary services	1.74	1.72	2.13	2.40	2.98	2.23	2.40	3.51	4.32	5.11	5.63
	7.20	7.34	7.70	7.85	7.05	6.33	6.91	8.57	10.05	12.18	14.23
Dividends ¹ (pence)	5.70	6.20	6.60	6.80	6.90	6.90	6.90	7.55	9.05	10.50	12.00
NAV ¹ (pence)											
(after proposed final dividend)	199.8	214.2	246.5	252.6	222.9	170.5	201.9	228.1	284.0	328.2	339.6
Share price ¹ (pence)	222.0	214.3	233.6	239.6	233.5	192.5	221.75	232.5	288.75	349.0	354.5
Premium/(discount) (%)	11.1	0.0	(5.2)	(5.1)	4.7	12.9	9.8	1.9	1.7	6.3	4.4
Market capitalisation (£m)	258.5	249.9	272.6	279.4	272.7	225.3	260.0	273.2	339.7	410.8	417.4
Cost of running investment trust (% of average portfolio value)	0.39	0.42	0.46	0.47	0.53	0.56	0.55	0.52	0.51	0.49	0.49

¹ Pence per share as restated following a five for one share split in August 2002.

The information in respect of 2003-2007 is in accordance with International Financial Reporting Standards. The information in respect of 1997-2002 is in accordance with UK Generally Accepted Accounting Principles.

Highlights

	31 December 2007 pence	31 December 2006 pence	Change %
Share price	354.50	349.00	1.6
NAV per share after proposed final dividend	339.64	328.17	3.5
Earnings per share			
– Investment trust	8.60	7.07	21.6
– Independent fiduciary services	5.63	5.11	10.2
Group earnings per share	14.23	12.18	16.8
Dividends per share	12.00	10.50	14.3

Performance

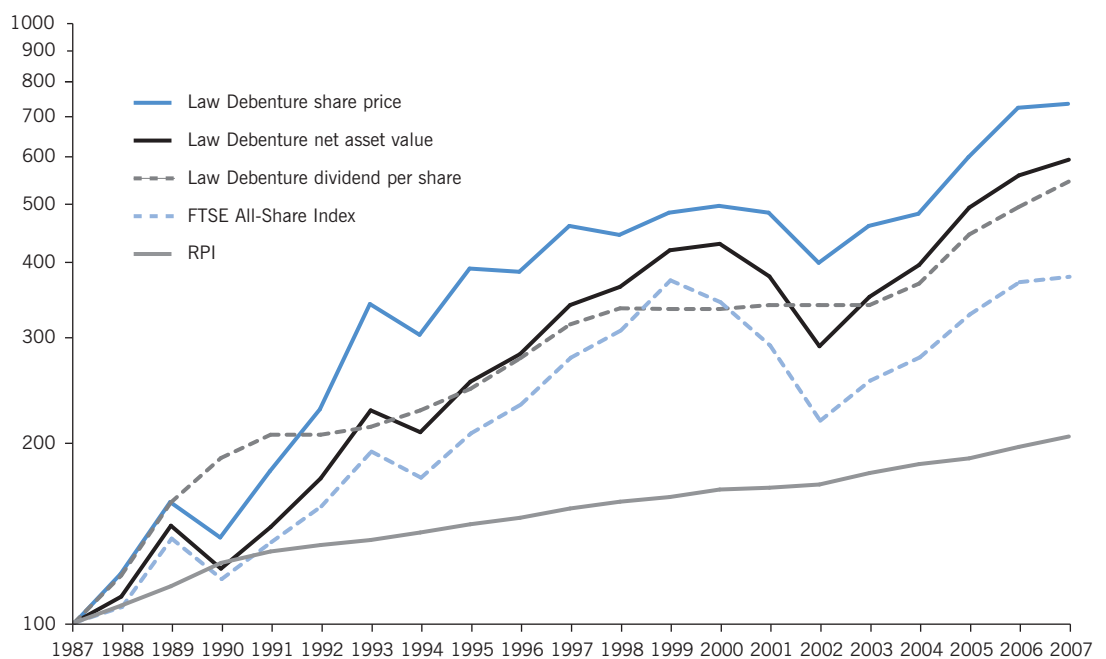
	2007 %	2006 %
Share price total return	5.0	24.5
NAV total return	7.2	19.3
FTSE All-Share Index total return	5.3	16.8

	5 years %	10 years %
NAV total return*	132.8	136.1
FTSE Actuaries All-Share Index total return*	104.6	82.4
Share price total return*	116.2	115.8
Change in retail price index*	17.5	31.1
Annual earnings growth	17.6	7.1
Annual dividend growth	11.7	7.7
Annual RPI change	3.3	2.7

* Source: AIC.

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

20 year performance



Douglas McDougall OBE*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 Banzsky*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*Non-executive director*

A former partner of Clifford Chance and appointed to the board in February 2001. Wide experience of capital markets transactions including medium term note programmes, securitisations and repackagings. Director of Fatburen Investment BV and of Charterhouse-in-Southwark Trustee Company.

A member of the remuneration, nomination and audit committees and chairman of the LDC Trust Management Limited board.

John Kay*Non-executive director*

Appointed to the board in September 2004. Business economist, writer and broadcaster. Visiting Professor at the London School of Economics. Founded London Economics, Britain's largest independent economic consultancy. Director of SVM UK Active Fund plc, Value and Income Trust plc and Clear Capital, an equity research boutique.

He writes a weekly column for the Financial Times. Chairman of the audit committee and member of the remuneration and nomination committees.

Robert Williams*Non-executive director*

A former partner of Linklaters, specialising in international finance. Joined the board in 1993. Member of the LDC Trust Management Limited board. Part time executive director until 31 December 2004, thereafter non-executive.

Investment manager

James Henderson

Joined Henderson Global Investors in 1983 and has been an investment trust portfolio manager since 1990, managing Lowland Investment Company plc since then and Henderson Opportunities Trust plc since January 2006. He first became involved in the management of Law Debenture's portfolio in 1994 and took over sole management of the portfolio in June 2003.

Performance

Over the year to 31 December 2007, our net asset value total return was 7.2% compared to a total return of 5.3% for the FTSE Actuaries All-Share Index.

Our gross revenue increased over the year by 18.9% from £40.8 million to £48.5 million. Profit attributable to shareholders was £16.7 million, an increase of 16.8% over the previous year, as a result of a 21.6% improvement in the investment trust and a 10.0% improvement in independent fiduciary services. The 10.0% is after deducting an adjustment to prior years' tax of £386,000. Improved company dividends and net interest receivable increased the return from the investment trust and all our independent fiduciary services businesses performed well.

Earnings and dividends

Earnings per share for the year to 31 December 2007 were 14.23p, an increase of 16.8% from the previous year. The board is recommending a final dividend of 8.0p per ordinary share (2006: 7.1p), which, together with the interim dividend of 4.0p (2006: 3.4p) gives a total dividend of 12.0p (2006: 10.5p), an increase of 14.3%. The final dividend will be paid, subject to shareholder approval, on 23 April 2008 to holders on the register at the record date of 14 March 2008. 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 6.3%, ahead of the FTSE All-Share Index return of 5.3%.

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 in any particular type of company or industry or market, but seek to find the best value in a diversified portfolio. 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. However, during the first ten months of the year we found it difficult to find good value in equities and we were in a net cash position.

When share prices fell following the credit squeeze, we believed that good buying opportunities arose. We invested in UK banks, house builders and property stocks, ending the year with equity exposure of 104%.

The investment trust will benefit from a VAT refund arising from the successful JPMorgan Fleming Claverhouse case against HM Revenue & Customs. We have not reached a final agreement with our investment manager on the potential amount recoverable and, as it will not have a material effect on our NAV and results, we have not recognised any amount at 31 December 2007.

Independent fiduciary services

Our independent fiduciary services business increased revenue by 21.2% and profit before tax by 27.3%. Most areas of the business have seen continued growth.

The corporate trust division had a busy year and a number of high profile appointments. Our pension trustee business saw growth from new and existing relationships and the Pensions Act 2004 continues to provide further opportunities. Corporate services continue to grow significantly and we acquired Delaware Corporate Services Inc. to increase market share and add new products and services in the US. Service of process is benefiting from the links between London, New York, Delaware, Hong Kong and the Channel Islands. The New York trust business achieved significant growth and continues to develop its business in niche markets. Hong Kong had a busy year as a result of the high level of activity in China. Channel Islands developed its position as an independent provider of trustee and corporate services.

On 31 October 2007 we acquired Safecall Limited, the UK's leading whistle blowing firm, to extend our portfolio of independent fiduciary services.

Staff

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

Douglas McDougall

Background

For the first half of the year equity markets continued in an upward trend with low volatility. Interest rates were going up but this did not undermine the benign calm. However, during the summer there was abrupt change as the problem in the money markets spilt into all financial assets. Sub-prime debt in the USA had been parcelled up and sold on into a variety of investment packages. Therefore when the sub-prime default rose there was a widespread problem in the market, as banks were unclear where the difficulties lay and reduced their activities with one another. A classic liquidity squeeze ensued as those who lent long and borrowed short were left with few options. The most striking casualty so far has been Northern Rock. The liquidity squeeze was the result of a long period in which investors sought yield without properly understanding the risks they were taking in achieving that yield. The second half of the year was characterised by the ramifications of the problem. There has been a flight to liquid assets, which has left financial assets that are not easily monetised falling sharply. Two of the main areas that have suffered have been smaller companies and property. The problems may have started with poor practices in the money markets but they will be felt in the broader economy as banks have become increasingly cautious in their lending policy.

The economy

Interest rates were raised in the major economies during the first half of the year as looming problems with inflation were attacked. Banks have grown their loan books considerably in recent years, as monetary growth has considerably out-stripped the growth of nominal GDP. This was a growing cause of concern but it had not led to a marked pick up of inflation. The reason for this is the increasing competitiveness of the global economy. Previous barriers inhibiting competitiveness such as labour mobility are slowly coming down. The importance of these changes is considerable. They have been enough to counter the inflationary effect of substantial increases in the price of oil and other commodities. However, the result of having relatively low interest rates has meant personal sector debt has grown. It has taken only modest increases by historical standards of interest rates for problems to surface in the US domestic property sector. The encouraging aspect is that the corporate sector's balance sheet has not followed the personal sector, as in the major economies corporate sector debt is at reasonably modest levels. Therefore although the global economy will slow over the coming year the underlying problems can be exaggerated. Interest rates have scope to fall further as although inflationary pressures are evident they are fairly muted. The corporate sector is going into the more difficult climate in a sound condition. There has not been aggressive capital spending on new capacity that cannot be filled, nor is there undue speculative property development in the UK which is usually the case at the end of a long upswing. There are enough positives to believe that the economic outlook is not as poor as the reaction of stock markets would suggest.

Investment activity

It had been expected that rising interest rates would bring problems but the speed of their emergence was a surprise. There had been net selling of equities within the portfolio over the year prior to the summer's correction. The borrowings were eliminated and cash deposits increased. The holdings in interest rate sensitive areas such as property companies and housebuilders had been sold, while the exposure to banks had been reduced. The holdings in mining companies were also sold as it was thought a reduction in the speed of economic growth would curtail the rise in commodity prices. When the sell off came, investor sentiment swung violently from greed to fear. Falling share prices encouraged shareholders to focus and magnify the problems. We believe the falls in the share prices of property related businesses and banks became exaggerated during the latter part of the year. Therefore the cash that had been built up was utilised and the gearing was reinstated. Selective UK banks, house builders, property stocks and smaller companies were purchased. The year ended with equity exposure of 104%.

The buying in the last quarter of the year positions the portfolio to benefit from a return of investor confidence in the future. The performance of the portfolio was hurt during the last year by the lack of exposure to the mining sector and by certain small companies. The UK equity market generally underperformed other major markets as concerns over the unbalanced nature of the UK economy came to the fore. The stocks held are not a reflection of the economy but individual companies that are competitive businesses with robust business models. The overseas holdings bring to the portfolio types of companies we cannot find in the UK. Our European holdings continued to make good progress. The Far East markets had a very strong year spurred on by the fast growth of China and into this strength the exposure was marginally reduced as valuations were starting to become demanding. The US holdings were predominantly sold in 2006 as valuations were high; however, after the recent market falls we will be on the look out for opportunities.

Outlook

Interest rates are falling and valuations are more modest than they have been for several years. There is considerable uncertainty about the earnings outlook and investors generally are very nervous. However, most companies in the portfolio are going into the economic slowdown in good health. Cash generation and balance sheets are strong. Dividend growth is coming through and dividend yields are relatively attractive when compared with other asset classes. The current investment approach is to buy good quality equities during market weakness.

James Henderson
Henderson Global Investors Limited

10 Top 20 holdings by value

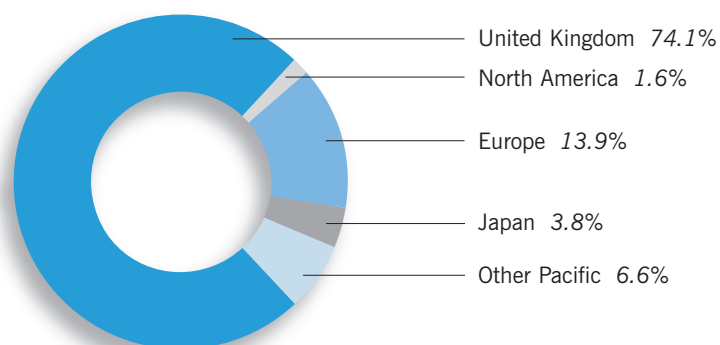
Rank	Company	2007		2006	
		Value £000	% of portfolio	% of portfolio	Rank
1	Henderson Asia Pacific Capital Growth (Pacific)*	27,744	6.55	7.99	1
2	BP	17,206	4.06	3.88	2
3	Royal Dutch Shell	14,094	3.33	2.82	5
4	HSBC	11,774	2.78	3.06	4
5	Senior	11,036	2.61	1.68	12
6	Royal Bank of Scotland	11,005	2.60	2.51	7
7	Henderson Japan Capital Growth (Japan)*	10,634	2.51	3.25	3
8	GlaxoSmithKline	9,968	2.35	2.68	6
9	British American Tobacco	9,137	2.16	1.82	11
10	Vodafone	8,845	2.09	1.86	10
11	Alliance & Leicester	5,994	1.42	–	–
12	Alfred McAlpine	5,746	1.36	2.16	8
13	BG	5,740	1.36	0.95	27
14	Tesco	5,715	1.35	1.33	14
15	Barclays	5,539	1.31	1.95	9
16	Shire	5,415	1.28	0.58	65
17	AstraZeneca	5,299	1.25	–	–
18	Bellway	5,209	1.23	–	–
19	Diageo	5,179	1.22	1.32	15
20	Rolls Royce	5,168	1.22	1.16	19
			44.04		

* Open ended investment companies.

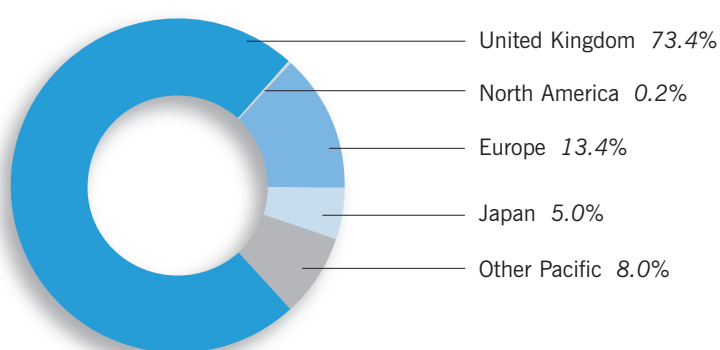
The top 20 holdings by value at 31 December 2006 accounted for 46% of the investment portfolio.

	Valuation 31 December 2006 £000	Purchases £000	Sales proceeds £000	Appreciation/ (depreciation) £000	Valuation 31 December 2007 £000
United Kingdom	268,125	96,278	(49,310)	(1,193)	313,900
North America	908	6,137	–	(139)	6,906
Europe	48,709	15,267	(11,761)	6,488	58,703
Japan	18,210	–	–	(1,969)	16,241
Other Pacific	29,162	–	(9,467)	8,049	27,744
	365,114	117,682	(70,538)	11,236	423,494

Geographical distribution of portfolio 2007



Geographical distribution of portfolio 2006



12 Classification of investments

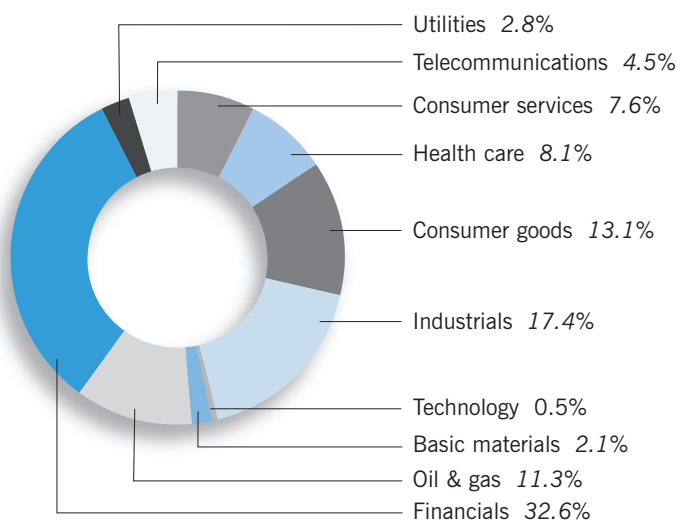
based on market values at 31 December 2007

	United Kingdom %	North America %	Europe %	Japan %	Other Pacific %
Oil & gas					
Oil & gas producers	8.75	–	0.70	–	–
Oil equipment & services	0.51	1.02	0.37	–	–
	9.26	1.02	1.07	–	–
Basic materials					
Chemicals	1.30	–	–	0.32	–
Forestry & paper	0.45	–	–	–	–
	1.75	–	–	0.32	–
Industrials					
Construction & materials	0.55	–	1.09	–	–
Aerospace & defence	2.92	–	–	–	–
General industrials	0.92	–	–	–	–
Electronic & electrical equipment	1.37	0.42	0.27	–	–
Industrial engineering	4.10	–	–	–	–
Industrial transportation	0.68	–	0.98	–	–
Support services	2.41	–	1.72	–	–
	12.95	0.42	4.06	–	–
Consumer goods					
Automobiles & parts	0.50	–	–	0.45	–
Beverages	2.09	–	0.17	–	–
Food producers	2.64	–	0.73	–	–
Household goods	3.28	–	0.97	–	–
Leisure goods	0.11	–	–	–	–
Tobacco	2.16	–	–	–	–
	10.78	–	1.87	0.45	–
Health care					
Health care equipment & services	0.64	–	1.64	–	–
Pharmaceuticals & biotechnology	4.88	–	0.76	0.18	–
	5.52	–	2.40	0.18	–
Consumer services					
Food & drug retailers	1.35	–	–	–	–
General retailers	1.05	–	0.54	0.17	–
Media	3.06	–	–	0.21	–
Travel & leisure	1.05	0.19	–	–	–
	6.51	0.19	0.54	0.38	–
Telecommunications					
Fixed line telecommunications	1.63	–	–	–	–
Mobile telecommunications	2.55	–	0.31	–	–
	4.18	–	0.31	–	–
Utilities					
Electricity	0.77	–	0.29	–	–
Gas water & multiutilities	1.75	–	–	–	–
	2.52	–	0.29	–	–
Financials					
Banks	10.43	–	1.74	–	–
Nonlife insurance	1.50	–	–	–	–
Life insurance/assurance	3.38	–	–	–	–
Real estate	3.52	–	0.56	–	–
General financial	0.80	–	1.02	–	–
Equity investment instruments	0.56	–	–	2.51	6.55
	20.19	–	3.32	2.51	6.55
Technology					
Software & computer services	0.46	–	–	–	–
	0.46	–	–	–	–
Total 2007	74.12	1.63	13.86	3.84	6.55
Total 2006	73.42	0.25	13.36	4.98	7.99

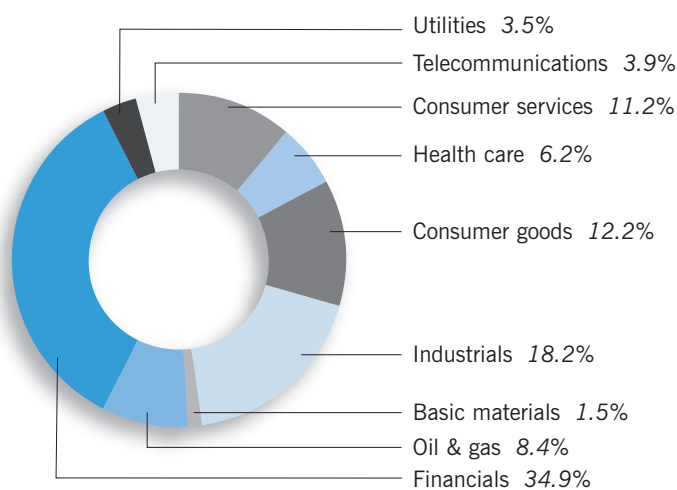
The above table excludes bank balances and short term deposits.

Total 2007 £000	2007 %	Total 2006 £000	2006 %
40,020	9.45	30,551	8.37
8,036	1.90	-	-
48,056	11.35	30,551	8.37
6,868	1.62	5,371	1.48
1,897	0.45	-	-
8,765	2.07	5,371	1.48
6,948	1.64	9,138	2.50
12,351	2.92	9,082	2.48
3,906	0.92	4,436	1.21
8,679	2.06	6,625	1.81
17,328	4.10	10,511	2.89
7,000	1.66	5,832	1.60
17,467	4.13	21,012	5.74
73,679	17.43	66,636	18.23
4,014	0.95	4,537	1.24
9,605	2.26	8,213	2.24
14,318	3.37	14,159	3.89
17,986	4.25	6,601	1.81
468	0.11	1,140	0.31
9,137	2.16	9,968	2.73
55,528	13.10	44,618	12.22
9,692	2.28	6,951	1.91
24,650	5.82	15,708	4.29
34,342	8.10	22,659	6.20
5,715	1.35	4,854	1.33
7,369	1.76	9,040	2.49
13,866	3.27	14,731	4.04
5,249	1.24	12,066	3.31
32,199	7.62	40,691	11.17
6,872	1.63	6,861	1.87
12,131	2.86	7,417	2.03
19,003	4.49	14,278	3.90
4,512	1.06	4,948	1.35
7,408	1.75	7,862	2.16
11,920	2.81	12,810	3.51
51,564	12.17	49,394	13.54
6,371	1.50	7,930	2.17
14,361	3.38	15,232	4.17
17,261	4.08	9,605	2.62
7,731	1.82	4,321	1.18
40,765	9.62	41,018	11.24
138,053	32.57	127,500	34.92
1,949	0.46	-	-
1,949	0.46	-	-
423,494	100.00	-	-
		365,114	100.00

Portfolio by sector 2007



Portfolio by sector 2006



as at 31 December 2007

The number of investments increased from 117 at 31 December 2006 to 137 at 31 December 2007. Those shown in italics are new holdings in the six months following 30 June 2007.

	£000	%		£000	%
Oil & gas			Industrial transportation		
Oil & gas producers					
BP	17,206	4.06	Kuehne & Nagel (Switz)	2,239	0.53
Royal Dutch Shell	14,094	3.33	AP Moller-Maersk (Den)	1,892	0.45
BG	5,740	1.36	Wincanton	1,757	0.42
Total (Fra)	2,980	0.70	Autologic	1,112	0.26
	40,020	9.45		7,000	1.66
Oil equipment & services			Support services		
<i>Schlumberger (USA)</i>	2,471	0.58	Alfred McAlpine	5,746	1.36
John Wood	2,160	0.51	Deutsche Post (Ger)	3,097	0.73
<i>National Oilwell Varco (USA)</i>	1,845	0.44	Interserve	2,948	0.70
Saipem (Italy)	1,560	0.37	SGS (Switz)	2,144	0.51
	8,036	1.90	Sodexho Alliance (Fra)	2,028	0.48
Basic materials			Consumer goods		
Chemicals			Automobiles & parts		
ICI	4,669	1.10	GKN	2,113	0.50
Asahi Kasei (Japan)	1,338	0.32	Toyota Motor (Japan)	1,901	0.45
Croda	861	0.20		4,014	0.95
	6,868	1.62	Beverages		
Forestry & paper			Diageo		
<i>Mondi</i>	1,897	0.45	Scottish & Newcastle	5,179	1.22
	1,897	0.45	Pernod-Ricard (Fra)	3,700	0.87
Industrials			726		
Construction & materials			9,605		
ACS Actividades Construcción (Spain)	2,866	0.68	Food producers		
CRH (Ireland)	1,748	0.41	Unilever		
Balfour Beatty	1,740	0.41	Nestlé (Switz)		
Marshalls	482	0.11	Cadbury Schweppes		
<i>Heywood Williams</i>	112	0.03	Uniq		
	6,948	1.64	Dairy Crest		
Aerospace & defence			Premier Foods		
Rolls Royce	5,168	1.22	14,318		
Meggitt	4,482	1.06	Household goods		
Smiths	2,701	0.64	<i>Bellway</i>		
	12,351	2.92	Reckitt Benckiser		
General industrials			<i>Redrow</i>		
Smith (DS)	2,302	0.54	Essilor (Fra)		
Tomkins	1,324	0.31	Puma (Ger)		
Acertec	280	0.07	<i>Bovis Homes</i>		
	3,906	0.92	17,986		
Electronic & electrical equipment			Leisure goods		
Morgan Crucible	3,636	0.86	Alba		
<i>Applied Materials (USA)</i>	1,780	0.42	468		
TT Electronics	1,635	0.39	468		
Neopost (Fra)	1,123	0.27	Tobacco		
Abacus	505	0.12	British American Tobacco		
	8,679	2.06	9,137		
Industrial engineering			9,137		
Senior	11,036	2.61	Health care		
Weir Group	3,232	0.76	Health care equipment & services		
Renold	1,740	0.42	Fresenius (Ger)		
<i>Hill & Smith</i>	1,320	0.31	Smith & Nephew		
	17,328	4.10	Fresenius Medical Care (Ger)		
			9,692		

	£000	%
Pharmaceuticals & biotechnology		
GlaxoSmithKline	9,968	2.35
Shire	5,415	1.28
AstraZeneca	5,299	1.25
Novartis (Switz)	1,907	0.45
Sanofi-Aventis (Fra)	1,295	0.31
Astellas Pharma (Japan)	766	0.18
	24,650	5.82
Consumer services		
Food & drug retailers		
Tesco	5,715	1.35
	5,715	1.35
General retailers		
Inditex (Spain)	2,284	0.54
Findel	1,776	0.42
Dunelm	1,388	0.33
Next	1,209	0.30
Lawson (Japan)	712	0.17
	7,369	1.76
Media		
Reed Elsevier	2,985	0.70
Reuters	2,867	0.68
BSkyB	1,854	0.44
Pearson	1,830	0.43
Yell	1,704	0.40
Johnston Press	1,090	0.26
Toppan Printing (Japan)	890	0.21
WPP	646	0.15
	13,866	3.27
Travel & leisure		
British Airways	1,463	0.35
Greene King	1,195	0.28
Carnival	1,187	0.28
Carnival (USA)	810	0.19
Avis Europe	552	0.13
Thomas Cook Group	42	0.01
	5,249	1.24
Telecommunications		
Fixed line telecommunications		
BT	3,546	0.84
Cable & Wireless	1,859	0.44
Colt Telecom 7.625% 15 Dec 2009	1,467	0.35
	6,872	1.63
Mobile telecommunications		
Vodafone	8,845	2.09
Inmarsat	1,961	0.46
Nokia (Finland)	1,325	0.31
	12,131	2.86
Utilities		
Electricity		
Scottish & Southern Energy	3,276	0.77
Iberdrola (Spain)	1,236	0.29
	4,512	1.06
Gas water & multiutilities		
National Grid	2,708	0.64
United Utilities	2,360	0.56
Severn Trent	2,340	0.55
	7,408	1.75

	£000	%
Financials		
Banks		
HSBC	11,774	2.78
Royal Bank of Scotland	11,005	2.60
<i>Alliance & Leicester</i>	5,994	1.42
Barclays	5,539	1.31
Lloyds TSB	4,718	1.11
Standard Chartered	2,765	0.65
HBOS	2,389	0.56
Deutsche Postbank (Ger)	2,208	0.52
BNP Paribas (Fra)	1,787	0.42
National Bank of Greece (Gre)	1,725	0.41
Fortis (Neth)	1,660	0.39
	51,564	12.17
Nonlife insurance		
Hiscox	3,785	0.89
Amlin	2,384	0.56
<i>Amlin B Shares</i>	202	0.05
	6,371	1.50
Life insurance/assurance		
Aviva	4,270	1.01
Prudential	2,794	0.66
Old Mutual	2,682	0.63
Legal & General	2,349	0.55
Friends Provident	1,879	0.44
Standard Life	387	0.09
	14,361	3.38
Real estate		
Land Securities	4,142	0.98
Hammerson	4,056	0.96
<i>Great Portland Estate</i>	2,574	0.61
Unibail (Fra)	2,367	0.56
<i>Segro</i>	2,114	0.50
<i>St Modwen Properties</i>	1,965	0.46
<i>Mucklow (A&J) Group</i>	43	0.01
	17,261	4.08
General financial		
Deutsche Börse (Ger)	4,277	1.01
Provident Financial	1,459	0.34
<i>International Personal Finance</i>	950	0.22
<i>Intermediate Capital Group</i>	827	0.21
	7,513	1.78
Equity investment instruments		
Henderson Asia Pacific Capital		
Growth (Pacific)	27,744	6.55
Henderson Japan Capital Growth (Japan)	10,634	2.51
<i>Herald Investment Trust</i>	2,387	0.56
	40,765	9.62
Technology		
Software & computer services		
Sage	1,949	0.46
	1,949	0.46

Results

Independent fiduciary services revenue rose by 21.2%, as a result of continued growth in fees in most areas of the business and a concentration of non-recurring special fees both in the UK and the US. Profit before tax rose by 27.3% from £7.9 million to £10.1 million. Earnings per share, which were reduced by an adjustment to prior years' tax of £386,000, rose by 10.2% from 5.11p to 5.63p. Our US operations continued to grow significantly and we acquired Delaware Corporate Services Inc. On 31 October 2007, we acquired Safecall Limited the UK's leading whistle blowing firm. Safecall provides an outsourced whistle blowing service to major public and private organisations. These acquisitions extend our range of independent fiduciary services.

Corporate trusts

Corporate trusts had a particularly busy year being involved in a number of high profile transactions. This is noteworthy, given the downturn in the international capital markets particularly in the area of structured finance in the last quarter.

We are known in the market for our willingness to be involved in more complex and innovative transactions. For instance we had been appointed security trustee in relation to the original Eurotunnel financing and had worked with the company on several rounds of restructurings and amendments. This culminated in the successful final restructuring which completed in the summer and which saw a newly formed French company taking over the entire franchise.

We have also been involved in a number of actions in both the UK and Polish courts in relation to the Polish company Elektrim. During the course of the year, a substantial payment was made through Law Debenture to bondholders. Actions are continuing.

We act as trustee for many prestigious borrowers, but one of the highlights of the year was to have been selected by the Bank of England to act as trustee for its multiple currency debt issuance programme. We also act as trustee on many note programmes for banks and companies worldwide and were selected by a number of borrowers including Abbey National, Aviva, Mitsubishi, National Grid and Xstrata.

Following the establishment of our structured finance administration capability, this new expertise enabled us to secure a number of appointments to act as trustee and collateral administrator.

Treasury management

Treasury management provides trust cash management and administration services in relation to various commercial trust, employee benefit schemes and retention plans, project financing and escrow and administration arrangements. We specialise in the management of the cash movements or the administrative function relating to a particular trust, escrow or administration role.

Treasury has had a busy year, with a variety of new transactions including acting as facility agent, cash manager and verification agent and we are well positioned to increase business further.

Pensions

Demand for our services as an independent pension trustee continued to grow, leading to increased income from both existing trustee appointments and several new appointments. These included our appointments as a trustee director to the pension schemes of Northern Rock, Standard Chartered and DSGi. We were appointed as one of three independent trustees of the GEC 1972 Plan by the Pensions Regulator at the time of the acquisition of the sponsoring employer, telent plc, by the Pension Corporation group. Apart from normal trustee work, there were several special situations involving us as independent trustee during the year, including the bid for Sainsburys and an application to the High Court concerning the British Vita Pension Plan. Many schemes were involved in funding and other discussions with sponsoring employers and we expect the high level of activity in such areas to continue.

Corporate services

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

The second income stream is the provision of corporate services (corporate directors, company secretary, accounting and incorporation services to special purpose vehicles – SPVs). Among roles won in 2007, we were appointed to securitisations by JPMorgan, HVB and Oakwood Homeloans. We were also appointed to manage SPVs for capital asset purchases, real property holding structures and PFI projects, as well as a number of capital raising structures for the benefit of companies in Central and Eastern Europe. The corporate services department operates independently of the corporate trust business and provides services to transactions whether or not Law Debenture has a trustee role.

Structured finance administration

Our structured finance administration business, which commenced in August 2006, had a very encouraging first six months of the year with a number of appointments. The second half of the year has been extremely difficult with very few new opportunities, following the impact of the credit crunch.

Safecall

Safecall became part of Law Debenture in 2007 and the business continues to see strong growth. During the year a number of new clients joined our whistle blowing service with key contracts won in the financial and utilities sectors.

As attitudes in board rooms up and down the country shift towards a more open culture of reporting we are in a strong position to assist and provide a safe and confidential means for their employees to raise concerns.

Overseas

United States

Law Debenture Trust Company of New York achieved significant growth. An important contributor to income was fees for our roles as successor trustees for Adelpia and Northwestern Corporation. During 2007 we were appointed successor trustee for American Home Mortgage Inc.

During the year examples of trustee appointments were, Grupo Iusacell and Corporacion Durango (Mexico), EDEMSA (Argentina), British

Telecommunications plc and GlaxoSmithKline Capital Inc. (UK) and administrative agent for multiple trade finance facilities originated by Rosemount Capital.

Law Debenture Corporate Services Inc. had strong growth in the year, benefiting from our efficient and responsive service. We acquired Delaware Corporate Services Inc. in order to increase market share and add new products and services in the US.

Hong Kong

Notwithstanding adverse developments in other markets, levels of business confidence in Hong Kong remained high, serving to tighten the labour market further. Accordingly, employers were placing greater emphasis on staff retention and the use of employee share trusts became more commonplace, evidenced by Law Debenture's recent appointment by Techtronic Industries Company Limited at the end of the year.

As levels of inward investment into China increased we were able to develop our escrow business. Building on our experience on transactions in China, we anticipate an increasing level of involvement there in the future going beyond normal escrow work.

Channel Islands

Law Debenture Channel Islands saw significant growth in new business in 2007, assisting in new infrastructure investments for the managers of a large pension fund and as distribution trustee to hold the rights to deferred consideration for the sale of a profitable portion of an insolvent business. However, we also noted some impact from the global credit crunch; a fall in new securitisation enquiries and two early terminations of existing appointments to meet the liquidity demands of investors.

Cayman Islands

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

Caroline Banzky

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 (UK) LLP
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 707 1129

Bankers

The Royal Bank of Scotland Group

Stockbrokers

JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA

A member of



The directors present their report and the audited financial statements of the group for the year ended 31 December 2007. 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 2006, the latest year for which financial statements have been submitted. Such approval for the year ended 2006 is subject to there being no subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the directors, the Corporation has subsequently conducted its affairs so as to enable it to obtain section 842 approval under the Income and Corporation Taxes Act 1985. The Corporation, which (as far as the directors are aware) is not a close company, is registered as an investment company as defined in section 833 of the Companies Act 2006 and operates as such. The directors consider that the group operates as a going concern.

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

Business review

The group divides into two distinct complementary areas of business. The Corporation is a global investment trust, its portfolio of investments being managed by Henderson Global Investors Limited. Independent fiduciary services activities are corporate trusts, treasury management, pension trusts, corporate services (including agent for service of process), structured finance administration and whistle blowing services. The services are provided by wholly owned subsidiaries of the Corporation with offices in London, Sunderland, New York, Delaware, Hong Kong, the Channel Islands and the Cayman Islands.

The group's objective is to achieve long term capital growth in real terms and steadily increasing income. The directors consider a number of performance measures to assess the group's success in achieving its objectives. The key performance indicators used to measure the progress and performance of the group are: net asset value total return per share; the discount or premium in share price to net asset value; and the

cost of running the portfolio as a percentage of its value. The net asset value total return combines the total return on the portfolio and the earnings of the independent fiduciary service business.

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

Group structure

During the year, the board restructured the group with a view to introducing more flexibility at the level of the investment trust. This involved the insertion of a tier of new group companies limited by guarantee, as immediate subsidiaries of the Corporation, and a new holding company for the trading group.

Investment policy

As required under the UK Listing Authority rules, from this year, the Corporation is required to set out its investment policy, which is as follows.

The Corporation carries on its business as a global growth investment trust. Its objective is set out in the business review. The aim is to achieve a higher rate of total return than the FTSE Actuaries All-Share Index through investing in a portfolio diversified both geographically and by industry.

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

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

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

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

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. The policy on gearing is to assume only that level of gearing which balances risk with the objective of increasing the return to shareholders. In pursuit of its investment objective, investments may be held in, *inter alia*, equity shares, fixed interest securities, interests in limited liability partnerships, cash and liquid assets. Derivatives may be used but only with the prior authorisation of the board. Investment in such instruments for trading purposes is proscribed. It is permissible to hedge against currency movements on both capital and income account, subject again to prior authorisation of the board. Stock lending, trading in suspended shares and short positions are not permitted.

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

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

Investment policy – implementation

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

A full list of holdings is disclosed on pages 14 and 15 and detailed analyses of the spread of investments by geographic region and industry sector are shown on pages 11 to 15. NAV relative performance against the FTSE All-Share Index is shown on page 4.

The top 20 holdings as shown on page 10 (excluding the Henderson OEICs) comprise 35.3% of the total portfolio (2006: 31.3%).

The extent to which the Corporation's objective has been achieved, and how the investment policy was implemented, are described in the chairman's statement on pages 6 and 7 and the investment manager's review on pages 8 and 9.

Principal risks and uncertainties

The principal risks of the Corporation relate to its investment activities and include market price risk, foreign currency risk, liquidity risk, interest rate risk, and credit risk. These are explained in note 20 to the accounts.

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

Revenue, dividends and reserves

The revenue return attributable to shareholders for the year ended 31 December 2007 was £16,656,000. The directors recommend a final dividend of 8.0p per share, which together with the interim dividend of 4.0p paid in September 2007, will produce a total of 12.0p (2006: 10.50p). The final dividend will be paid on 23 April 2008 to holders on the register on the record date of 14 March 2008. After deduction of the interim and proposed final dividends of £14,051,000 (2006: £12,297,000), consolidated revenue reserves increased by £2,605,000 (2006: increase of £1,967,000).

Directors

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

In accordance with the articles of association, Mrs Banzsky and Professor John Kay are required to retire and offer themselves for election, it being three years since their last election. The board supports their nomination. Mrs Banzsky has proved to be a very effective Managing Director, considerably improving profitability of the independent fiduciary services businesses. Professor Kay provides a valuable insight into economic events and trends and has been an effective audit committee chairman. Mr Williams became a non-executive director on 1 January 2005. Since he has been an executive director within the last five years, and has been a director for longer than nine years he stands for annual re-election. The board supports his re-election. Mr Williams, who has extensive experience of the independent fiduciary services businesses, previously provided excellent service as an executive director, and has continued to provide valuable advice to the board as a non-executive. The chairman, Douglas McDougall, having served as a director for longer than nine years, is required to stand for annual re-election. The board supports his re-election. He leads the board with skill and considerable success. He is highly regarded in the investment trust sector and makes a full contribution to the board, with particular expertise in overseeing investment strategy.

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	2007	2006
C.J. Banzsky	47,139	31,197
A.C. Cates	35,458	35,367
J.A. Kay	5,000	5,000
D.C.P. McDougall	410,000	410,000
R.J. Williams	95,308	91,304

No director has a beneficial interest in the shares of any subsidiary company. There has been no change in directors' interests since 31 December 2007.

Regulatory compliance

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

Regulatory compliance continues to impose ever greater demands. The UKLA's review of investment company listing rules has only recently been concluded, with new rules introduced. The introduction of the Companies Act 2006 is piecemeal, with phased implementation dates stretching forward to October 2009. The Money Laundering Regulations 2007 have required many of the Corporation's independent fiduciary services businesses to be registered for compliance by HMRC. None of these developments has had a positive effect on shareholder return.

Law Debenture's responsibilities as an institutional shareholder

The Corporation's policy is as follows:

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

The board determines the Corporation's investment strategy but does not issue express instructions to the investment manager on transactions in particular shares. Where Law Debenture believes that incumbent management is failing in its duties, Law Debenture (or on its behalf, the Corporation's investment manager) may attempt to enter into dialogue with the company concerned in an attempt to alter the management's position.

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

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

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

Repurchase of shares

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

Shares may be issued in accordance with the articles of association – see AGM resolution 10.

Substantial shareholdings and share information

As at 25 February 2008, there were no shareholders that had notified the Corporation of an interest in 3% or more of the issued share capital. Share information as required by section 992 of the Companies Act 2006 appears at page 68. Unless expressly stated the Corporation has no disclosure to make under that section.

Shareholder relations

The Corporation encourages communication between the management and shareholders on matters of mutual interest. All shareholders receive a copy of the annual report and the interim statement, and the Corporation also provides this service to shareholders in nominee companies where the nominee has made appropriate arrangements. The shareholders wishing to receive reports and other communications electronically may do so by writing to the Corporation.

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 UK full-time employees are eligible to participate after completing a minimum service requirement. Options outstanding under the SAYE schemes at 31 December 2007 were:

Date of grant	Number of option holders	Shares under option	Exercise price
2 July 2003	34	225,395	172.40p
17 June 2004	15	34,969	203.82p
10 June 2005	11	16,465	240.73p
9 August 2006	14	21,451	283.70p
11 June 2007	15	21,528	349.76p

From 1993 to 2004, the Corporation operated Executive Share Option Schemes, which enabled executives to be granted options to acquire shares in the Corporation. Options granted under the scheme are normally exercisable between the third and tenth anniversaries of the option grant date. For options granted from 1998 onwards, such exercise is contingent upon targets for the independent

fiduciary services business being achieved. Following a board decision in 2005 to discontinue the scheme and replace it with a Deferred Share Bonus Plan, no further options have been granted and total options outstanding at 31 December 2007 were as follows:

Date of grant	Number of option holders	Shares under option	Exercise price
4 December 1998	7	141,250	212.1p
2 August 2002	1	17,025	211.5p
28 March 2003	20	247,994	174.2p
2 March 2004	12	86,165	228.2p

Investment management

Henderson Global Investors Limited is 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 £931,000 (2006: £933,000) 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 342,969 shares in the Corporation at 31 December 2007.

Charitable donations

During the year the Corporation made charitable donations of £1,687 (2006: £1,109).

Payment of suppliers

The group is committed to seeking the best terms possible for all types of business and hence there is no single policy as to the terms used. For most suppliers, the average credit period is 30 days.

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

Statement of directors' responsibilities in relation to the financial statements

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

In preparing the accounts on pages 38 to 64, 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 report includes information required by the Listing Rules of the Financial Services Authority.

Under a regulation adopted by the European Parliament the Corporation and the group are required to prepare the financial statements under International Financial Reporting Standards.

continued

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Corporation's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in the annual report may differ from legislation in other jurisdictions.

Statement of information given to auditors

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

Auditors

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

By order of the board

Law Debenture Corporate Services Limited

Secretary

27 February 2008

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

The board – role, modus operandi and appraisal

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

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

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

The board operates as a collective decision making forum. Individual directors are required to scrutinise reports produced by the executive, and are encouraged to debate issues in an open and

constructive manner. If one or more directors cannot support a consensus decision, a vote will be taken and the views of a dissenting director recorded in the minutes.

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

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

	Board	Remuneration	Audit	Nominations
Number of meetings in the year	9*	4	3	1
Meetings attended by:				
C.J. Banzsky	9	–	–	–
A.C. Cates	8	4	3	1
J.A. Kay	8	4	3	1
D.C.P. McDougall	8	4	3	1
R.J. Williams	9	–	–	–

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

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

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

The board – independence

As a smaller company, Law Debenture is required by the Combined Code to have at least two independent non-executive directors. The board has concluded that as at the date of this report, excluding the chairman, two of its 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 in the view of the board, notwithstanding the fact that he has served as a director for more than nine years and that he is not taken into account in assessing the independence of the board as a whole. Assessment of independence should be about conduct, not an arbitrary time limit.

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

Mr Cates was until 30 April 2002 a partner of Clifford Chance LLP, a firm that has provided advice to certain of the independent fiduciary services 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 independent fiduciary services 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, having had no previous connections with the Corporation or any of its subsidiaries.

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

The board – re-election and renewal

The nominations committee – described in more detail elsewhere in this report – ensures that the board has in place arrangements for orderly and transparent appointments to the board. There are job descriptions in place for non-executive directors'

roles, and the board has written terms and conditions of appointment for non-executive directors, which are available for inspection at the AGM. Particular care is taken to ensure that non-executive directors have sufficient time to commit to the duties expected of them. No new non-executive director is appointed without first being interviewed by each existing non-executive director.

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

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

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

Directors' remuneration

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

Board committees

The board has established a nominations committee, an audit committee and a remuneration committee, to which it has delegated certain responsibilities. Each committee has terms of reference, which are published on the Corporation's website ([www.lawdeb.com/investmenttrust/investor information](http://www.lawdeb.com/investmenttrust/investorinformation)).

All members of board committees are independent non-executive directors. The Smith guidance, which forms part of the Combined Code, says that the chairman should not be a member of the audit committee. The Corporation's board has concluded, however, that given the range and complexity of issues considered by the committee, it is appropriate to have three members including the chairman. The board notes that a review of the Combined Code by the Financial Reporting Council, issued in December 2007, recognises this point and proposes that for smaller companies the proscription on the chairman serving on an audit committee be removed.

The Combined Code provides that the chairman may be a member of the remuneration committee (the earlier code proscribed this) but that he should not be its chairman. The Corporation's board has concluded that it is appropriate, given the size of the board, for the chairman to be on the remuneration committee and, given his experience and knowledge, he is best placed of the three committee members to chair it.

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 so far as practicable with the Combined Code.

Members

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

Audit committee

Role

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

Key duties

- Monitoring the independence and objectivity of the auditors, their performance and remuneration;
- Reviewing the annual and interim accounts before submission to the board, including particular focus on changes in accounting policy etc; and

- Reviewing the effectiveness of systems of internal control and risk management (including monitoring the internal audit function).

Members

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

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

Remuneration committee

Role

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

Key duties

- Reviewing and agreeing the remuneration and benefits of the executive director and senior executives in the light, as relevant, of corporate performance against a range of measures;
- Development of total remuneration packages, taking account of factors set out in the Combined Code, based in part on performance and subject to suitable performance measurements as set by the committee; and
- To make recommendations to the board for any changes to long term incentive arrangements.

Members

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

Accountability and audit

The statement of directors' responsibilities in relation to the financial statements appears on page 23 of the annual report and accounts. The independent auditor's report appears on pages 36 and 37. The directors confirm that the Corporation is a going concern as evidenced by the financial statements, which demonstrate a healthy position, taking into account all known and future anticipated liabilities, and the group's ability to meet those liabilities.

The financial statements present a balanced and clear assessment of the financial position and prospects of the Corporation and the group. The financial statements are reviewed by the audit

committee, then approved by the board, and signed by the chairman and managing director.

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

Internal controls

The following paragraphs describe the framework of internal controls in place to ensure that the Corporation complies with the Financial Reporting Council's revised guidance ('the Turnbull guidance') which forms a part of the Combined Code. This section should be read in conjunction with the business review, from which shareholders will better understand the risks that our internal controls are in place to manage.

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

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

The internal audit programme and system of compliance checks have both been developed using a risk-based methodology and an evaluation of process controls.

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

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

- Regular qualitative self-assessment of the effectiveness of the individual controls maintained in the overall internal financial control framework;
- Preparation by management of a comprehensive and detailed budget system, involving annual board approval and monthly comparison at board level of actual results with budgets and forecasts;
- Systematic reporting to the board of matters relating to litigation, insurance, pensions, taxation, accounting and cash management as well as legal, compliance and company secretarial issues;
- Review of internal audit reports by the appropriate operating company board and the audit committee;
- Review of the internal controls of those services, such as investment management, custody and registration, which have been delegated to third parties, such review being conducted during the initial contractual negotiation and on a regular basis, including annual discussions with the senior management and compliance staff of Henderson Global Investors Limited;
- Monitoring by the board of the investment management process, including the establishment and maintenance of investment guidelines, receiving a report from the investment manager at each board meeting, the review of all transactions with the investment manager and regular reconciliations of the records of the group with those of the global custodian and investment data services provider; and
- Receipt of frequent and detailed reports about the independent fiduciary services businesses, including reports (and attendance at board meetings from time to time) from managing directors of overseas subsidiaries.

The systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material mis-statement or loss.

By means of the procedures set out above, the directors have established a process for identifying, evaluating and monitoring the effectiveness of the internal control systems for the period. This process has been in place throughout 2007 and will be reviewed by the board on a regular basis.

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

Relations with shareholders and institutional shareholder responsibilities

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

Annual general meeting

Details of the annual general meeting ('AGM') for 2008 are set out at pages 67 to 72.

The board recognises the value of the AGM as an opportunity to communicate with investors and encourage their participation. Separate resolutions are put to the AGM on each substantially separate issue. Except where a poll has been called, the level of proxies lodged for each resolution, and the balance for and against the resolution and the number of abstentions is disclosed to the meeting. This information is published immediately after the AGM on the Corporation's website. Those appointing a proxy have the opportunity to indicate 'vote withheld' if they wish neither to support nor oppose a resolution. The notice of the AGM and related papers are sent to shareholders at least 20 working days before the meeting. Where requested by nominee holders, annual reports and related documentation are circulated to beneficial owners and the Corporation is happy for beneficial owners to attend the AGM and (where appropriate

arrangements have been made with the nominee) to vote their shares in person.

Summary statement of compliance

The board has concluded that, as demonstrated by the disclosures made in the foregoing, the Corporation has complied throughout 2007 with the requirements of the Combined Code on Corporate Governance or, where it has not complied, an explanation has been provided. Compliance is reported in respect of the entire Code, notwithstanding the fact that some of the provisions do not apply to Law Debenture as a smaller company.

Dear Shareholder

In accordance with the Directors' Remuneration Report Regulations 2002 and the Companies (Summary Financial Statement) Amendment Regulations 2002, on behalf of the board I submit the remuneration report for The Law Debenture Corporation p.l.c. for 2007. The report contains specific and detailed information about the way directors of the Corporation are remunerated, and the amounts they receive. Some of the information is historical, some forward looking. Those sections that have been audited in accordance with the Regulations are shown at the top of each relevant paragraph.

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

Douglas McDougall

Chairman, remuneration committee

Remuneration committee – membership and advisers

The board has delegated responsibility for consideration of all matters relating to the executive director's remuneration to a remuneration committee. All of the members of the committee (listed at page 27) are independent, non-executive directors. Each of these served throughout the year to 31 December 2007.

The committee met four times during the year. The managing director attended all of the meetings at the invitation of the chairman (although she was not present when details of her own remuneration were discussed). The managing director, the chief financial officer and the company secretary provided advice when called upon to do so. As for external advisers, the committee appointed Lesley Pearson, a remuneration consultant, to undertake salary benchmarking exercises. No other external advisers were engaged during the year.

To the extent required by statute, disclosures in this remuneration report have been audited – the independent auditors' report appears on pages 36 and 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 is to ensure that remuneration packages offered to the executive director and senior executives are competitive, and designed to attract, retain and motivate individuals of the highest calibre.

The remuneration committee operates, and will continue in the future to operate, in accordance with key principles which are:

- Remuneration packages should be competitive but not extravagant, and should broadly be in line with average packages in the markets in which Law Debenture operates; and
- There should be a clear link between total remuneration and performance.

The major components of Law Debenture's remuneration packages for the executive director and senior executives comprise: basic salary; general bonus scheme, which may be invested in a Share Incentive Plan, calculated by reference to the success of the independent fiduciary services businesses; discretionary bonus based upon independent fiduciary services business performance and the attainment of personal targets; a long term bonus scheme for certain senior executives, designed to enhance retention of people key to the strategic growth of the independent fiduciary services business; pensions provision in a contributory, funded, Inland Revenue approved, final salary occupational pension scheme; and participation in a Sharesave Scheme. Details of the policy applied in each component are outlined below. Non-executive directors receive fees as described at paragraphs 8 and 10, but do not receive any other benefits.

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

The policy applied in respect of each component of the remuneration package is as follows:

1. Basic salary

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

The managing director also received non-pensionable cash payments in the form of a car allowance, pension allowance as detailed in paragraph 6 and a payment in lieu of private health cover (she is not a member of the group's scheme). This is included within salary/fees at paragraph 10. Non-cash benefits include life insurance cover.

2. General bonus scheme

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

A cash payment will be made in March 2008 in respect of performance of the independent fiduciary services businesses in 2007. The amount of the payment is not guaranteed from year to year and is calculated by reference to a number of factors relating to the independent fiduciary services businesses, including profitability and the growth in profits. The bonus is paid as a percentage of basic salary (normally expected to be between 5 and 15%), and all qualifying employees receive a bonus calculated at the same percentage. In 2008, the general bonus scheme payment will be 13.5% of basic salary. There are no performance conditions specific to any individual in order to qualify for receipt of a general bonus payment, although certain length of service and qualification conditions do apply. Entitlement to the payment will be withdrawn if the participant is not employed as at 24 March 2008. Participants are entitled to place all or part of their general bonus scheme payment into an Inland Revenue approved Share Incentive Plan.

3. Senior executive discretionary bonus scheme

This is payable to a number of senior executives, including the managing director.

In assessing what bonus or incentive payment should be awarded, account is taken of any factors that the remuneration committee reasonably consider appropriate, including the financial performance and position of the company and performance against any objectives that have been set for each individual. Objectives are set in relation to the independent fiduciary services businesses and are not tied to the Corporation's share price. There is no contractual entitlement that says an incentive payment must be paid in any given year. Entitlement is normally lost if, on the date that incentive payments are paid, a participant is no longer employed by the group, or either the participant or the group has served notice to terminate employment. Incentive payments are not taken into account in calculating pension contributions. The discretionary bonus payable in 2008 to Mrs Banzky in respect of 2007 will be £168,000 (2006: £130,000). Up to the allowable limit, her bonus in respect of 2007 and payable in 2008, will be eligible to be placed in the Corporation's Share Incentive Plan. In January 2008, Mrs Banzky received a special bonus of £20,000. One third of this bonus was paid under the Deferred Share Bonus Plan for release in January 2011.

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

The Deferred Share Bonus Plan is designed to incentivise and retain staff deemed key to the future strategic growth of the trustee and related businesses. It is important to note that awards are

made reflecting successfully delivered performance against targets in the previous year. Part of the bonus for that year's effort is withheld for three years to encourage retention. At its discretion, the remuneration committee may make awards of shares each year under the Plan to executives. No executive has a contractual entitlement to an award, and the committee is not obliged to make an award to any individual in any year. Shares are purchased in the open market up to the amount of the award, and held on trust by a Law Debenture subsidiary. The shares are released to the executive on the third anniversary of grant of the award and are taxable at the executive's marginal rate of income tax on receipt. Entitlement to the award is lost if the executive gives notice to resign, or is put on notice of termination, before the award release date. Dividend rights and voting rights on shares held by the trustee pending release to relevant executives are waived. The committee made awards of deferred bonus shares to the executive director (details of which are at paragraph 14) and 35 key members of the executive on 8 March 2007. Subject to eligibility, the shares will be released to award holders on 8 March 2010.

The remuneration committee has agreed an award of shares to the value of £84,000 under the plan to Mrs Banzky in respect of 2007, which will be purchased in March 2008 and will be released in March 2011.

Non-executive directors are not entitled to be participants.

4. Save as you earn ('SAYE') sharesave plan 2002 ('the Scheme')

Subject to eligibility conditions concerning length of service, the executive director (in common with all of the members of staff) is entitled to participate in the Corporation's SAYE Scheme. Details of her participation in the Scheme appear at paragraph 13.

Under the terms of the Scheme, which is approved by the Inland Revenue under paragraph 1, Schedule 9 Income and Corporation Taxes Act 1988, eligible participants are entitled to make monthly savings direct from post tax pay, with a guaranteed tax-free return after five years. The

amount to be saved can be up to a maximum aggregate of £250 per month. On joining the scheme, savers are given an option to acquire shares in the Corporation at the end of the five year saving period, at a price fixed at the beginning of the saving period. The fixed price is the net asset value per ordinary share on the date when eligible participants are invited to join the plan.

At the end of the five year saving period, participants receive a tax free bonus as stipulated by the Inland Revenue. At the end of a saving period, participants may choose to apply the amount saved to exercise the options over the shares notified at the outset of the saving period, or they may choose to relinquish their options in favour of receiving a cash repayment of all of their contributions, plus the bonus.

Mrs Banzky did not participate in the 2007 invitation, being fully invested (contributing £250 per month) from the 2003 invitation.

5. Executive share options (discontinued in 2005)

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

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

- *Options granted in 2002*
These became exercisable on 2 August 2007, the profits of the independent fiduciary services of the Corporation and its subsidiaries having grown at an annual compound rate of 4% plus inflation over the five years ending 31 December 2006.
- *Options granted in 2003*
These are exercisable from 28 March 2008, as the performance conditions have been met (these are as above except that the initial testing period is to 31 December 2007). The 'profits of the independent fiduciary services' mean the amount shown as such in the notes to the Corporation's consolidated accounts.
- *Options granted in 2004*
These became exercisable on 2 March 2007, the performance conditions having been met.

6. Pensions provision

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

7. Service contracts

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

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

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

In the event that the managing director is given notice of termination of employment within twelve months of any change in control of the company, she must be given not less than twelve months' written notice, and the same arrangements for receiving salary and benefits during this period (including payments 'in lieu') also apply as described above.

8. Remuneration of non-executive directors

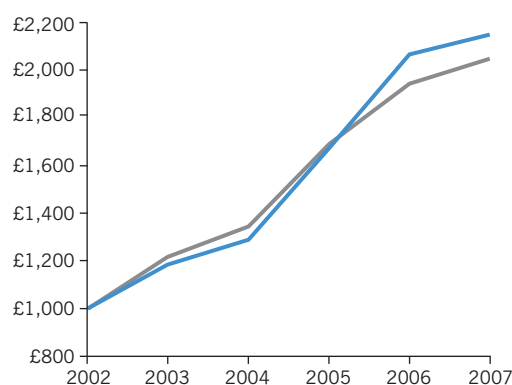
The non-executive directors were paid fees for their services in 2007, as set out in paragraph 10. They may also reclaim travelling expenses.

The fees are reviewed by the board, on advice from the executive director, who from time to time undertakes comparative studies, using an independent remuneration consultant, to ensure that the Corporation's fee levels are consistent with the marketplace. The fees were amended with

effect from 1 January 2008, and are paid as a flat rate director's fee (£22,500, or £27,500 for the senior non-executive director) with variable, additional fees being paid for each 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 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 2002 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 2002 and the reinvestment of all income (excluding dealing expenses).

Notes

1. The graph shows the total shareholder return of a nominal holding of £1,000 of Law Debenture's shares measured against the total shareholder return of a nominal holding of £1,000 invested in the FTSE All-Share Index over a five year period.
2. Dividends have been reinvested.

continued

10. Directors' emoluments 2007 (audited)

	Total salary/fees £	Total bonus £	Benefits other than in cash £	Total receivable for 2007 £	Total receivable for 2006 £
C.J. Banzky	346,999	181,333	1,647	529,979	449,023
A.C. Cates	53,000	–	–	53,000	50,000
D.C.P. McDougall	65,000	–	–	65,000	60,000
R.J. Williams	31,500	–	–	31,500	30,000
J.A. Kay	31,500	–	–	31,500	30,000

Notes

- Total salary/fees for Mrs Banzky comprises basic salary plus non-pensionable cash allowances of £66,999 as set out in paragraphs 1 and 6.
- 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 2007 £ pa	Accumulated total accrued pension at 31 December 2007 £ pa	Transfer value as at 31 December 2006 £000	Transfer value as at 31 December 2007 £000	Increase in transfer value £000
C.J. Banzky	266	7,599	104	114	10

- The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 2007.
- The increase in accrued pension during the year includes any increase for inflation.
- The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
- Any Additional Voluntary Contributions ('AVCs') are excluded from the above table. Mrs Banzky made no AVCs during the year.
- No previous directors are, or have been, in receipt of any excess retirement benefits.
- Mrs Banzky ceased to be a member of the scheme from 31 March 2006.

12. Executive share option scheme (audited)

	Interest as at 31 December 2006	Granted in 2007	Exercised in 2007	Interest as at 31 December 2007	Exercise price	Earliest exercise	Latest exercise
C.J. Banzky							
2002	31,205	–	14,180	17,025	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 349p: the highest price during the year was 387p the lowest price was 340.3p. The market value at the date of exercise of the share options was 360.5p giving a notional gain of £21,128. Mrs Banzky purchased and retained the exercised shares.

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

	Interest as at 31 December 2006	Interest acquired in 2007	Exercise price	Market price at invitation date	Exercised in 2007	Interest as at 31 December 2007	Earliest exercise	Latest exercise
C.J. Banzsky	9,237	–	172.40p	204.75p	–	9,237	01.08.08	01.02.09
R.J. Williams	9,237	–	172.40p	204.75p	–	9,237	01.08.08	01.02.09

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

14. Deferred share bonus plan (audited)

	Interest at 31 December 2006	Interest acquired in 2007	Purchase price	Interest at 31 December 2007	Date shares to be released
C.J. Banzsky					
2005	9,632	–	249.18p	9,632	13.05.08
2006	18,806	–	319.04p	18,806	01.03.09
2007	–	18,293	355.32p	18,293	08.03.10

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

15. Aggregate directors' remuneration

	2007	2006
Emoluments	710,979	619,023
Notional gain on exercise of share options	21,128	–
	732,107	619,023

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

We have audited the group and parent company financial statements ('the financial statements') of The Law Debenture Corporation p.l.c. for the year ended 31 December 2007 which comprise the group income statement, the statement of total recognised income and expense, the group and company balance sheets, the statement of changes in equity, the cash flow statements and the related notes. The financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and for preparing the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the parent company's affairs as at 31 December 2007;
- the group financial statements have been properly prepared in accordance with article 4 of the IAS Regulation;
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

PKF (UK) LLP

Registered Auditors
London, UK

27 February 2008

38 Group income statement

for the year ended 31 December

	Notes	Revenue 2007 £000	Capital 2007 £000	Total 2007 £000	Revenue 2006 £000	Capital 2006 £000	Total 2006 £000
UK dividends		9,643	–	9,643	9,805	–	9,805
UK special dividends		94	–	94	19	–	19
Overseas dividends		1,507	–	1,507	1,499	–	1,499
Overseas special dividends		–	–	–	11	–	11
Interest from securities		418	–	418	146	–	146
		11,662	–	11,662	11,480	–	11,480
Interest income	6	4,323	–	4,323	2,474	–	2,474
Independent fiduciary services fees	2	32,418	–	32,418	26,741	–	26,741
Other income		129	–	129	144	–	144
Total revenue		48,532	–	48,532	40,839	–	40,839
Net gain on investments held at fair value through profit or loss	3	–	11,635	11,635	–	48,128	48,128
Gross income and capital gains		48,532	11,635	60,167	40,839	48,128	88,967
Cost of sales		(8,371)	–	(8,371)	(8,465)	–	(8,465)
Administrative expenses	4	(17,038)	(659)	(17,697)	(13,523)	(179)	(13,702)
Operating profit		23,123	10,976	34,099	18,851	47,949	66,800
Finance costs							
Interest payable	6	(2,459)	–	(2,459)	(2,458)	–	(2,458)
Profit before taxation	7	20,664	10,976	31,640	16,393	47,949	64,342
Taxation	8	(4,008)	–	(4,008)	(2,129)	–	(2,129)
Profit for year	7	16,656	10,976	27,632	14,264	47,949	62,213
Return per ordinary share (pence)	10	14.23	9.37	23.60	12.18	40.95	53.13
Diluted return per ordinary share (pence)	10	14.19	9.34	23.53	12.14	40.82	52.96

Group statement of total recognised income and expense

for the year ended 31 December

	Revenue 2007 £000	Capital 2007 £000	Total 2007 £000	Revenue 2006 £000	Capital 2006 £000	Total 2006 £000
Profit for the financial year	16,656	10,976	27,632	14,264	47,949	62,213
Foreign exchange	(31)	–	(31)	(303)	–	(303)
Pension actuarial gains	26	–	26	3,119	–	3,119
Taxation on pension	(8)	–	(8)	(936)	–	(936)
Total recognised income and expense relating to the year	16,643	10,976	27,619	16,144	47,949	64,093

as at 31 December

	Notes	Group		Corporation	
		2007 £000	2006 £000	2007 £000	2006 £000
Assets					
Non current assets					
Goodwill	11	4,185	–	–	–
Property, plant and equipment	12	666	694	–	–
Intangible assets	13	46	67	–	–
Investments held at fair value through profit or loss	14	423,494	365,114	423,276	364,924
Investments in subsidiary undertakings	14	–	–	58	8
Amounts due from subsidiary undertakings	14	–	–	60,000	–
Deferred tax assets	8	332	705	–	–
Total non current assets		428,723	366,580	483,334	364,932
Current assets					
Trade and other receivables	15	4,320	12,009	204	3,598
Other accrued income and prepaid expenses		3,693	2,751	938	1,118
Cash and cash equivalents	16	34,685	74,555	23,286	60,695
Total current assets		42,698	89,315	24,428	65,411
Total assets		471,421	455,895	507,762	430,343
Current liabilities					
Amounts owed to subsidiary undertakings		–	–	48,310	46,123
Trade and other payables	17	8,583	9,541	1,016	97
Short term borrowings	21	65	34	–	–
Corporation tax payable		1,852	848	825	32
Other taxation including social security		509	430	315	267
Deferred income		3,767	4,026	10	13
Total current liabilities		14,776	14,879	50,476	46,532
Non current liabilities and deferred income					
Long term borrowings	21	39,284	39,257	–	–
Retirement benefit obligations	24	257	1,073	–	–
Deferred income		7,871	8,041	253	263
Deferred purchase consideration		2,143	–	–	–
Total non current liabilities		49,555	48,371	253	263
Total net assets		407,090	392,645	457,033	383,548
Equity					
Called up share capital	18	5,888	5,886	5,888	5,886
Share premium		7,477	7,410	7,477	7,410
Capital redemption		8	8	8	8
Share based payments		195	167	–	–
Own shares	18	(1,603)	(1,326)	–	–
Capital reserves	19	368,000	357,024	428,218	357,242
Retained earnings		27,386	23,706	15,442	13,002
Translation reserve		(261)	(230)	–	–
Total equity shareholders' funds		407,090	392,645	457,033	383,548

Approved and authorised for issue by the board on 27 February 2008 and signed on its behalf by:

D.C.P. McDougall Chairman

C.J. Banzky Managing director

40 Statement of changes in equity

for the year ended 31 December

	Share capital £000	Share premium £000
Group		
Balance at 1 January 2006	5,882	7,231
Net profit	–	–
Foreign exchange	–	–
Actuarial gain on pension scheme (net of tax)	–	–
Total income and expenditure	–	–
Issue of shares	4	179
Dividend relating to 2005	–	–
Dividend relating to 2006	–	–
Share based payment	–	–
Movement in own shares	–	–
Total equity shareholders' funds at 31 December 2006	5,886	7,410
Balance at 1 January 2007	5,886	7,410
Net profit	–	–
Foreign exchange	–	–
Actuarial gain on pension scheme (net of tax)	–	–
Total income and expenditure	–	–
Issue of shares	2	67
Dividend relating to 2006	–	–
Dividend relating to 2007	–	–
Share based payment	–	–
Movement in own shares	–	–
Total equity shareholders' funds at 31 December 2007	5,888	7,477
	Share capital £000	Share premium £000
Company		
Balance at 1 January 2006	5,882	7,231
Net profit (and total income and expenditure)	–	–
Issue of shares	4	179
Dividend relating to 2005	–	–
Dividend relating to 2006	–	–
Total equity shareholders' funds at 31 December 2006	5,886	7,410
Balance at 1 January 2007	5,886	7,410
Net profit (and total income and expenditure)	–	–
Issue of shares	2	67
Dividend relating to 2006	–	–
Dividend relating to 2007	–	–
Total equity shareholders' funds at 31 December 2007	5,888	7,477

Capital reserves comprises realised and unrealised gains on investments held at fair value through profit or loss (see note 19).

Own shares £000	Capital redemption £000	Share based payments £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
(963)	8	114	73	309,075	18,204	339,624
-	-	-	-	47,949	14,264	62,213
-	-	-	(303)	-	-	(303)
-	-	-	-	-	2,183	2,183
-	-	-	(303)	47,949	16,447	64,093
-	-	-	-	-	-	183
-	-	-	-	-	(6,963)	(6,963)
-	-	-	-	-	(3,982)	(3,982)
-	-	53	-	-	-	53
(363)	-	-	-	-	-	(363)
(1,326)	8	167	(230)	357,024	23,706	392,645
(1,326)	8	167	(230)	357,024	23,706	392,645
-	-	-	-	10,976	16,656	27,632
-	-	-	(31)	-	-	(31)
-	-	-	-	-	18	18
-	-	-	(31)	10,976	16,674	27,619
-	-	-	-	-	-	69
-	-	-	-	-	(8,311)	(8,311)
-	-	-	-	-	(4,683)	(4,683)
-	-	28	-	-	-	28
(277)	-	-	-	-	-	(277)
(1,603)	8	195	(261)	368,000	27,386	407,090
Own shares £000	Capital redemption £000	Share based payments £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
-	8	-	-	304,683	10,979	328,783
-	-	-	-	52,559	12,968	65,527
-	-	-	-	-	-	183
-	-	-	-	-	(6,963)	(6,963)
-	-	-	-	-	(3,982)	(3,982)
-	8	-	-	357,242	13,002	383,548
-	8	-	-	357,242	13,002	383,548
-	-	-	-	70,976	15,434	86,410
-	-	-	-	-	-	69
-	-	-	-	-	(8,311)	(8,311)
-	-	-	-	-	(4,683)	(4,683)
-	8	-	-	428,218	15,442	457,033

42 Cash flow statement

for the year ended 31 December

	Group		Corporation	
	2007 £000	2006 £000	2007 £000	2006 £000
Operating activities				
Cash generated from operating activities	27,544	13,794	24,048	10,798
Taxation	(2,497)	(1,199)	(242)	–
Interest paid	(2,459)	(2,458)	(3,266)	(3,120)
Pension special contribution	–	(1,615)	–	–
Operating cash flow	22,588	8,522	20,540	7,678
Investing activities				
Capital expenditure	(129)	(114)	–	–
Expenditure on intangible assets	(33)	(9)	–	–
Purchase of investments	(117,682)	(35,038)	(117,654)	(40,070)
Sale of investments	70,538	98,967	70,538	103,978
Sale of fixed assets	–	22	–	–
Sale of subsidiary undertakings	–	–	60,000	–
Acquisition of subsidiary undertakings	(1,905)	–	(50)	–
Loans to subsidiary undertakings	–	–	(60,000)	–
Cash flow from investing activities	(49,211)	63,828	(47,166)	63,908
Financing activities				
Subsidiary undertakings	–	–	2,187	(1,352)
Dividends paid	(12,994)	(10,945)	(12,994)	(10,945)
Proceeds of increase in share capital	69	183	69	183
Purchase of own shares	(277)	(363)	–	–
Net cash flow from financing activities	(13,202)	(11,125)	(10,738)	(12,114)
Net (decrease)/increase in cash and cash equivalents	(39,825)	61,225	(37,364)	59,472
Cash and cash equivalents at beginning of period	74,521	13,599	60,695	1,223
Exchange losses on cash and cash equivalents	(76)	(303)	(45)	–
Cash and cash equivalents at end of period	34,620	74,521	23,286	60,695
Cash and cash equivalents comprise				
Cash and cash equivalents	34,685	74,555	23,286	60,695
Bank loans and overdrafts	(65)	(34)	–	–
	34,620	74,521	23,286	60,695

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

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

	2007 £000	2006 £000	2007 £000	2006 £000
Revenue return including profit before interest payable and taxation	23,123	18,851	19,912	16,222
Depreciation of property, plant and equipment	157	137	–	–
Depreciation of intangible assets	54	55	–	–
Loss on sale of fixed assets	–	(1)	–	–
Share based payments	28	53	–	–
Decrease/(increase) in debtors	6,860	(4,579)	3,574	(3,213)
(Decrease)/increase in creditors	(1,496)	389	954	(1,736)
Transfer from capital reserves	(215)	(307)	(215)	(307)
UK and overseas withholding tax deducted at source	(177)	(168)	(177)	(168)
Normal pension contributions in excess of cost	(790)	(636)	–	–
Net cash inflow from operating activities	27,544	13,794	24,048	10,798

1 Summary of significant accounting policies

General Information

The Law Debenture Corporation p.l.c. is a public company incorporated in the United Kingdom. The address of the registered office is given on page 18. The group's operations and its principal activities are as an investment trust and the provider of independent fiduciary services.

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

Basis of preparation

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

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

Basis of consolidation

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

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

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

Presentation of income statement

In order to better reflect the activities of an investment trust company and in accordance with the SORP, supplementary information which analyses the income statement between items of a revenue and capital nature has been presented alongside the income statement. In accordance with the Company's status as a UK investment company under section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend. Additionally, the net revenue is the measure the directors believe appropriate in assessing the group's compliance with certain requirements set out in section 842 Income and Corporation Taxes Act 1988. As permitted by section 230 of the Companies Act 1985, the Corporation has not presented its own income statement.

Segment reporting

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

Foreign currencies

Transactions recorded in foreign currencies are translated into sterling at the exchange rate ruling on the date of the transaction.

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rate ruling at that date. Gains and losses on translation are included in net profit or loss for the period, however exchange gains or losses on investments held at fair value through profit and loss are included as part of their fair value gain or loss.

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

Property, plant and equipment

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

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

continued

1 Summary of significant accounting policies continued

Intangible assets

Computer software

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

Goodwill

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

Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated.

Impairment of assets

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

Investments

Investments

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

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

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

Trade receivables

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

Trade payables

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

Cash and cash equivalents

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

Share capital

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

Borrowings

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

Taxation

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense which are either never taxable or deductible or are taxable or deductible in other periods.

The group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

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

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

1 Summary of significant accounting policies continued

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

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

Revenue recognition

Dividend income

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

Interest income

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

Sales of services

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

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

Employee benefits

Pension costs

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

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

Bonus schemes

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

Share based plans

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

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

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

Provisions

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

Leases

Operating leases

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

Dividend distribution

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

continued

2 Business and geographical segments

	2007 £000	2006 £000
Independent fiduciary services income		
Geographical analysis by location of client:		
United Kingdom	15,080	12,717
Overseas	17,338	14,024
	32,418	26,741

3 Total capital gains/(losses) from investments

	2007 £000	2006 £000
Realised gains based on historical cost	30,632	32,292
Amounts recognised as unrealised in previous years	(29,461)	(31,308)
Realised gains based on carrying value at previous balance sheet date	1,171	984
Unrealised profits on investments	10,679	47,451
	11,850	48,435
Transfers to revenue	(215)	(307)
	11,635	48,128

4 Administrative expenses

	2007 £000	2006 £000
Administrative expenses include:		
Salaries and directors' fees	8,734	6,948
Social security costs	789	645
Other pension costs	724	261
Investment management fee	931	933
Irrecoverable VAT on investment management fees	105	71
Depreciation – property, plant and equipment – intangible assets	157 54	137 55
Profit on sale of property, plant and equipment	–	(1)
Operating leases – land and buildings	1,122	1,099
Foreign exchange	45	48
Auditors' remuneration	185	136

During the year, the group employed an average of 101 staff (2006: 88). All staff are engaged in the provision of independent fiduciary services.

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

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

4 Administrative expenses continued

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

	2007 £000	2006 £000
Audit services		
– fees payable to the Corporation's auditors for the audit of its financial statements*	115	86
– audit related regulatory	4	3
Tax services	66	43
Other services	–	4
	185	136

* Including the Corporation £35,000 (2006: £28,750).

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

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

5 Remuneration of directors

	2007 £000	2006 £000
Directors' emoluments, which comprise the following, are included in administrative expenses:		
Directors' fees	181	170
Management remuneration	530	449
	711	619

The emoluments of the highest paid director totalled £530,000 (2006: £458,000) and included employer pension contributions of £nil (2006: £9,000) and amounts accrued under the terms of the employee bonus plan of £181,000 (2006: £130,000). Her accrued pension entitlement is as follows:

	2007 £000
Increase during 2007 including inflation increase	–
Accumulated total accrued pension at 31 December 2007	8
Transfer value of increase in accrued pension based on actuarial advice	10

Annual pension entitlements shown above are based upon service up to 31 December 2007 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

6 Interest

	2007 £000	2006 £000
Interest income		
Interest on bank deposits	2,716	1,263
Returns on money market funds	1,346	1,170
Returns on pension scheme	261	41
	4,323	2,474
Interest payable		
Interest on debenture stock	2,450	2,450
Interest on bank overdrafts	9	8
	2,459	2,458
Interest (net)	1,864	16

7 Segmental analysis

	Investment trust		Independent fiduciary services		Total	
	31 December 2007 £000	31 December 2006 £000	31 December 2007 £000	31 December 2006 £000	31 December 2007 £000	31 December 2006 £000
Segment revenue	11,662	11,480	32,418	26,741	44,080	38,221
Other income	27	30	102	114	129	144
Cost of sales	–	–	(8,371)	(8,465)	(8,371)	(8,465)
Administration costs	(1,850)	(1,804)	(15,188)	(11,719)	(17,038)	(13,523)
	9,839	9,706	8,961	6,671	18,800	16,377
Interest (net)	711	(1,260)	1,153	1,276	1,864	16
Return, including profit on ordinary activities before taxation	10,550	8,446	10,114	7,947	20,664	16,393
Taxation	(481)	(168)	(3,527)	(1,961)	(4,008)	(2,129)
Return, including profit attributable to shareholders	10,069	8,278	6,587	5,986	16,656	14,264
Return per ordinary share	8.60	7.07	5.63	5.11	14.23	12.18
Assets	447,762	430,343	23,659	25,552	471,421	455,895
Liabilities	(50,728)	(46,795)	(13,603)	(16,455)	(64,331)	(63,250)
Total net assets	397,034	383,548	10,056	9,097	407,090	392,645

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

Other information

	£000	£000	£000	£000	£000	£000
Capital expenditure	–	–	162	128	162	128
Depreciation	–	–	211	191	211	191

8 Taxation

	2007 £000	2006 £000
Taxation based on revenue for the year comprises:		
UK Corporation tax at 30%	2,836	1,259
Adjustments in respect of prior years	386	41
	3,222	1,300
Overseas tax		
Current tax on income for the year	421	367
Total current tax charge	3,643	1,667
Deferred tax	365	462
	4,008	2,129

Taxation

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

	2007 £000	2006 £000
Return on ordinary activities before tax	20,664	16,393
Tax on ordinary activities at standard rate 30%	6,199	4,918
Effects of:		
Expenses not deductible for tax purposes	46	132
Higher rates of tax on overseas income	(5)	(35)
Tax credit on dividend income	(2,734)	(2,947)
Utilisation of losses brought forward	–	(101)
Adjustment in respect of prior periods	386	41
Recovery of overseas tax	124	117
Tax at small companies rate	(4)	(5)
Other differences	(4)	9
	4,008	2,129

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 standard UK rate.

Deferred tax

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

Deferred tax assets

	Accelerated tax depreciation £000	Retirement benefit obligations £000	Employee benefits £000	Overseas earnings £000	Total £000
At 1 January 2006	179	1,933	26	(32)	2,106
Charge/(credit) to income	142	(675)	39	32	(462)
Credit to equity	–	(936)	–	–	(936)
Foreign exchange	(3)	–	–	–	(3)
At 1 January 2007	318	322	65	–	705
Credit to income	(128)	(237)	–	–	(365)
Credit to equity	–	(8)	–	–	(8)
At 31 December 2007	190	77	65	–	332

continued

9 Dividends on ordinary shares

	2007 £000	2006 £000
Dividends on ordinary shares comprise the following:		
2007 Interim 4.00p (2006: 3.40p)	4,683	3,982
2006 Final 7.10p (2005: 5.95p)	8,311	6,963
Total for year	12,994	10,945
Proposed final dividend for the year ended 31 December 2007	9,368	

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

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

	2007 £000	2006 £000
2007 Interim 4.00p (2006: 3.40p)	4,683	3,982
2007 Final dividend 8.00p (2006: 7.10p)	9,368	8,315
	14,051	12,297

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

Dividends have been waived in respect of the 651,949 shares owned by the Employee Share Ownership Trust ('ESOT') (see note 18).

10 Earnings per share from continuing operations

Revenue return is based on profits attributable of £16,656,000 (2006: £14,264,000).

Capital return per share is based on net capital gain for the year of £10,976,000 (2006: £47,949,000).

The calculations of both revenue and capital returns per share are based on 117,085,850 (2006: 117,095,929) 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 117,454,985 (2006: 117,468,330) 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.

11 Goodwill

	2007 £000	2006 £000
Cost		
At 1 January	–	–
Recognised on acquisition of subsidiary undertakings (see note 27)	4,185	–
At 31 December	4,185	–

At 31 December 2007 goodwill was not impaired.

12 Property, plant and equipment

Group	2007			2006		
	Leasehold improvements £000	Office furniture & equipment £000	Total £000	Leasehold improvements £000	Office furniture & equipment £000	Total £000
Cost						
At 1 January	731	742	1,473	739	687	1,426
Additions at cost	46	83	129	–	114	114
Disposals at cost	–	–	–	(8)	(59)	(67)
At 31 December	777	825	1,602	731	742	1,473
Accumulated depreciation						
At 1 January	290	489	779	245	442	687
Charge	57	100	157	51	86	137
Disposals	–	–	–	(6)	(39)	(45)
At 31 December	347	589	936	290	489	779
Net book value at 31 December	430	236	666	441	253	694

The Corporation holds no property, plant and equipment.

13 Intangible assets

Group	Computer software 2007 £000	Computer software 2006 £000
Cost		
At 1 January	567	558
Additions at cost	33	9
At 31 December	600	567
Accumulated depreciation		
At 1 January	500	445
Charge	54	55
At 31 December	554	500
Net book value at 31 December	46	67

The Corporation holds no intangible fixed assets.

continued

14 Investments

Investments held at fair value through profit or loss

	2007			2006		
	Listed £000	Unlisted £000	Total £000	Listed £000	Unlisted £000	Total £000
Group						
Opening cost at 1 January	217,359	190	217,549	249,135	190	249,325
Gains at 1 January	147,565	–	147,565	131,422	–	131,422
Opening fair value at 1 January	364,924	190	365,114	380,557	190	380,747
Purchases at cost	117,654	28	117,682	35,038	–	35,038
Cost of acquisition	(614)	–	(614)	(139)	–	(139)
Sales – proceeds	(70,538)	–	(70,538)	(98,967)	–	(98,967)
Realised gains on sales	30,632	–	30,632	32,292	–	32,292
(Losses)/gains in the income statement	(18,782)	–	(18,782)	16,143	–	16,143
Closing fair value at 31 December	423,276	218	423,494	364,924	190	365,114
Closing cost at 31 December	294,493	218	294,711	217,359	190	217,549
Gains	128,783	–	128,783	147,565	–	147,565
Closing fair value at 31 December	423,276	218	423,494	364,924	190	365,114
Corporation						
Opening cost at 1 January	222,456	–	222,456	249,210	–	249,210
Gains at 1 January	142,468	–	142,468	126,645	–	126,645
Opening fair value at 1 January	364,924	–	364,924	375,855	–	375,855
Purchases at cost	117,654	–	117,654	40,070	–	40,070
Cost of acquisition	(614)	–	(614)	(149)	–	(149)
Sales – proceeds	(70,538)	–	(70,538)	(98,967)	–	(98,967)
Realised gains on sales	30,632	–	30,632	32,292	–	32,292
(Losses)/gains in the income statement	(18,782)	–	(18,782)	15,823	–	15,823
Closing fair value at 31 December	423,276	–	423,276	364,924	–	364,924
Closing cost at 31 December	299,590	–	299,590	222,456	–	222,456
Gains	123,686	–	123,686	142,468	–	142,468
Closing fair value at 31 December	423,276	–	423,276	364,924	–	364,924

Included in unlisted investments in the group balance sheet are subsidiary undertakings which are held in connection with the group's independent fiduciary services business and in which the group holds all its voting rights. These undertakings have not been included in the group consolidation as the Corporation's ability to exercise its rights as a parent company over the assets and management of these undertakings is severely restricted by contractual agreements with other parties. The group received fees of £301,360 (2006: £296,880) in respect of these undertakings.

There were no amounts outstanding with these undertakings at the year end (2006: nil).

14 Investments continued

Investments in subsidiary undertakings – Corporation

	2007 £000	2006 £000
Cost		
At 1 January	8	90
Acquisition	50	–
Disposal	–	(82)
At 31 December	58	8

During the year the group was restructured to introduce more flexibility at the level of the investment trust. In order to achieve this the Corporation made loans to subsidiary undertakings (all limited by guarantee) totalling £60 million, which are for a term of five years and carry interest at 8.25% per annum. The Corporation sold the whole of its interest in L.D.C Trust Management Limited to a subsidiary undertaking for £60 million, which gave rise to a capital profit of £60 million. Further, the Corporation acquired the entire share capital of Law Debenture Finance p.l.c. for £50,000.

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

- † Delaware Corporate Services Inc (incorporated in Delaware)
- † L.D.C. Trust Management Limited
- † Law Debenture Corporate Services Limited
- † Law Debenture Corporate Services Inc (incorporated in New York)
- Law Debenture Finance p.l.c.
- † Law Debenture Guarantee Limited
- † Law Debenture Holding Inc (incorporated in New York)
- † Law Debenture Trust (Asia) Limited (incorporated in Hong Kong)
- † Law Debenture Intermediary Corporation p.l.c.
- † Law Debenture Trust Corporation of New York (incorporated in New York)
- † Law Debenture Trustees Limited
- † Law Debenture Asset Backed Solutions 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 Pension Trust Corporation p.l.c.
- † The Law Debenture Trust Corporation p.l.c.
- † The Law Debenture Trust Corporation (Cayman) Limited (incorporated in the Cayman Islands)
- † The Law Debenture Trust Corporation (Channel Islands) Limited (incorporated in Jersey)
- † Safecall Limited

† Shares held by a subsidiary.

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

15 Trade and other receivables

An allowance has been made during the year for the estimated irrecoverable amounts from the sale of services of £275,000 (2006: £301,000). This allowance has been determined by reference to past experience.

16 Cash and cash equivalents

These comprise cash held at bank by the group, short-term bank deposits with an original maturity of three months or less and money market funds with immediate access. The carrying amount of these assets approximates to their fair value.

continued

17 Trade and other payables

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

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

18 Called up share capital

	2007 £000	2006 £000
Authorised share capital		
133,000,000 ordinary shares of 5p each	6,650	6,650
Allotted, issued and fully paid share capital		
Value		
As at 1 January	5,886	5,882
Issued in year	2	4
As at 31 December	5,888	5,886
Shares		
As at 1 January	117,720,013	117,633,040
Issued in year	32,200	86,973
As at 31 December	117,752,213	117,720,013

During the year to 31 December 2007, 32,200 shares were allotted under the SAYE Scheme and Executive Share Option Scheme for a total consideration of £68,907 which includes a premium of £67,297.

During the year, 21,528 options were granted under the Corporation's SAYE scheme. At 31 December 2007, options under the schemes exercisable from 2006 to 2013 at prices ranging from 172.4p to 349.8p per share were outstanding in respect of 812,242 ordinary shares (2006: 919,716) ordinary shares. During 2007, 5,489 options lapsed or were cancelled (2006: 19,927) and 123,513 were exercised.

Further details of options outstanding are given in the directors' report commencing on page 19. The number of shares and option prices above have all been restated in accordance with the share split that took place in August 2002.

Own shares held

	2007 £000	2006 £000
Own shares held – cost	1,603	1,326

The own shares held represent the cost of 651,949 (2006: 607,357) ordinary shares of 5p each in the Corporation, acquired by the ESOT in the open market. The shares have been acquired to meet the requirements of the Executive Share Option Scheme and the Deferred Share Bonus Plan. The dividends relating to the shares have been waived. The market value of the shares at 31 December 2007 was £2,311,159.

19 Capital reserves

	2007			2006		
	Unrealised appreciation £000	Realised reserves £000	Total £000	Unrealised appreciation £000	Realised reserves £000	Total £000
Group						
At 1 January	145,679	211,345	357,024	130,022	179,053	309,075
Transfer on disposal of investments	(29,461)	29,461	–	(31,308)	31,308	–
Net gains on investments	10,679	1,171	11,850	47,451	984	48,435
Cost of acquisition	(659)	–	(659)	(179)	–	(179)
Transfers to revenue	(215)	–	(215)	(307)	–	(307)
At 31 December	126,023	241,977	368,000	145,679	211,345	357,024

	2007			2006		
	Unrealised appreciation £000	Realised reserves £000	Total £000	Unrealised appreciation £000	Realised reserves £000	Total £000
Corporation						
At 1 January	140,943	216,299	357,242	125,286	179,397	304,683
Transfer on disposal of investments	(29,461)	29,461	–	(31,308)	36,237	4,929
Net gains on investments	10,679	61,171	71,850	47,451	665	48,116
Cost of acquisition	(659)	–	(659)	(179)	–	(179)
Transfers to revenue	(215)	–	(215)	(307)	–	(307)
At 31 December	121,287	306,931	428,218	140,943	216,299	357,242

20 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.

continued

20 Financial instruments continued

The group and Corporation held the following categories of financial assets and liabilities at 31 December 2007.

Group	2007 £000	2006 £000
Assets		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition):		
Equity investments	422,027	363,745
Debt investments	1,467	1,369
	423,494	365,114
Loans and receivables:		
Trade and other receivables	4,320	12,009
Cash and cash equivalents	34,685	74,555
	39,005	86,564
Total financial assets	462,499	451,678
Liabilities		
Financial liabilities measured at amortised cost:		
Loans and payables		
Trade and other payables	8,583	9,541
Short term borrowings	65	34
	8,648	9,575
Long term borrowings	39,284	39,257
Total financial liabilities	47,932	48,832
Corporation		
	2007 £000	2006 £000
Assets		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition):		
Equity investments	421,809	363,555
Debt investments	1,467	1,369
	423,276	364,924
Loans and receivables:		
Amounts due from subsidiary undertakings	60,000	–
Trade and other receivables	204	3,598
Cash and cash equivalents	23,286	60,695
	83,490	64,293
Total financial assets	506,766	429,217
Liabilities		
Financial liabilities measured at amortised cost:		
Loans and payables		
Amounts owed to subsidiary undertakings	48,310	46,123
Trade and other payables	1,016	97
Total financial liabilities	49,326	46,220

20 Financial instruments continued

The principal risks facing the group in respect of its financial instruments remain unchanged from 2006 and are:

- **market price risk**, arising from uncertainty in the future value of financial instruments. The board maintains policy guidelines whereby risk is spread over a range of investments, the number of holdings normally being between 70 and 150. In addition, the stock selections and transactions are actively monitored throughout the year by the investment manager, who reports to the board on a regular basis to review past performance and develop future strategy. The investment portfolio is exposed to market price fluctuation: if the valuation at 31 December 2007 fell or rose by 10%, the impact on the group's total profit or loss for the year would have been £42.3 million (2006: £36.5 million). Corresponding 10% changes in the valuation of the investment portfolio on the Corporation's total profit or loss for the year would have been the same.
- **foreign currency risk**, arising from movements in currency rates applicable to the group's investment in equities and fixed interest securities and the net assets of the group's overseas subsidiaries denominated in currencies other than sterling. The group's financial assets denominated in currencies other than sterling were:

	2007			2006		
	Investments £m	Net financial assets £m	Total currency exposure £m	Investments £m	Net financial assets £m	Total currency exposure £m
Group						
US Dollar	6.9	2.8	9.7	0.9	2.8	3.7
Euro	48.9	0.4	49.3	41.2	0.2	41.4
Danish Krone	1.9	–	1.9	1.3	–	1.3
Swiss Franc	9.4	–	9.4	7.5	–	7.5
Hong Kong Dollar	–	0.4	0.4	–	0.7	0.7
Japanese Yen	5.6	–	5.6	6.4	–	6.4
	72.7	3.6	76.3	57.3	3.7	61.0

	2007			2006		
	Investments £m	Net financial assets £m	Total currency exposure £m	Investments £m	Net financial assets £m	Total currency exposure £m
Corporation						
US Dollar	6.9	0.3	7.2	0.9	0.3	1.2
Euro	48.9	0.1	49.0	41.2	0.1	41.3
Danish Krone	1.9	–	1.9	1.3	–	1.3
Swiss Franc	9.4	–	9.4	7.5	–	7.5
Japanese Yen	5.6	–	5.6	6.4	–	6.4
	72.7	0.4	73.1	57.3	0.4	57.7

continued

20 Financial instruments continued

The holdings in the Henderson Japan Capital Growth and Pacific Capital Growth OEICs are denominated in sterling but have underlying assets in foreign currencies equivalent to £38.4 million (2006: £41.0 million). Investments made in the UK and overseas have underlying assets and income streams in foreign currencies which cannot be determined and this has not been included in the sensitivity analysis. If the value of all other currencies at 31 December 2007 rose or fell by 10% against sterling, the impact on the group's total profit or loss for the year would have been £11.1 million (2006: £9.8 million). Corresponding 10% changes in currency values on the Corporation's total profit or loss for the year would have been the same. The calculations are based on the investment portfolio at the respective balance sheet dates and are not representative of the year as a whole.

- **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 £15 million which was undrawn at 31 December 2007.
- **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 2007 was:

				Group	Corporation	
	Sterling £m	HK Dollars £m	US Dollars £m	Euro £m	Sterling £m	Euro £m
Fixed rate assets	–	–	–	–	–	–
Floating rate assets	31.6	0.4	2.3	0.3	22.9	0.3
Fixed rate liabilities*	39.3	–	–	–	–	–
Weighted average fixed rate	6.125%					

* Fixed until 2034.

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

If interest rates during the year were 0.5% higher or lower the impact on the group's total profit or loss for the year would have been £121,000 (2006: £261,000).

The Corporation holds cash and cash equivalents on short term bank deposits and money market funds. Amounts due from subsidiary undertakings are for a term of five years and carry interest at a fixed rate (see note 14). Amounts owed to subsidiary undertakings include £40 million at a fixed rate. Interest rates on cash and cash equivalents and amounts due to subsidiary undertakings at floating rates tend to vary with bank base rates. Corresponding 0.5% changes in interest rates would have affected the Corporation's profit or loss for the year by £52,000 (2006: £191,000). The calculations are based on the balances at the respective balance sheet dates and are not representative of the year as a whole.

- **credit risk**, arising from the failure of another party to perform according to the terms of their contract. In practice, the board considers that this risk is generally low, however, proceedings and claims do arise in the ordinary course of the independent fiduciary services business (see note 22). The group's maximum exposure to credit risk arising from financial assets is £39.0 million (2006: £86.6 million). The Corporation's maximum exposure to credit risk arising from financial assets is £83.5 million (2006: £64.2 million).

20 Financial instruments continued

Trade and other receivables

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

	Group		Corporation	
	2007 £000	2006 £000	2007 £000	2006 £000
Between 31 and 60 days	1,144	1,123	124	25
Between 61 and 90 days	581	2,926	7	–
More than 91 days	370	268	61	–
Total	2,095	4,317	192	25

Trade and other payables

	Group		Corporation	
	2007 £000	2006 £000	2007 £000	2006 £000
Due in less than one month	7,544	8,256	1,016	97
Due between one year and five years	1,039	1,285	–	–
	8,583	9,541	1,016	97

Fair value

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

21 Bank overdrafts and loans

	2007 %	2006 %
The weighted average interest rates were as follows:		
Bank overdrafts (sterling)	6.51	5.64

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

	Group		Corporation	
	2007 £000	2006 £000	2007 £000	2006 £000
Borrowings are repayable as follows:				
In one year or less	65	34	–	–
In more than one year but not more than two years	–	–	–	–
In more than two years but not more than three years	–	–	–	–
Total	65	34	–	–
In more than five years				
Secured				
6.125% guaranteed secured bonds 2034	39,284	39,257	–	–

The sterling bank overdrafts of £65,000 (2006: £34,000) have been incurred in connection with the independent fiduciary services 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 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.

continued

21 Bank overdrafts and loans continued**Analysis of borrowings by currency**

	2007		2006	
	Sterling £000	Total £000	Sterling £000	Total £000
Bank overdrafts	65	65	34	34

22 Contingent liabilities

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

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

The Corporation has provided a guarantee to a subsidiary undertaking in respect of the ongoing liabilities of the group defined benefit pension scheme see note 24.

23 Lease commitments

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

	Land and buildings 2007 £000	Total 2007 £000	Total 2006 £000
Less than one year	1,146	1,146	1,166
Two to five years	5,536	5,536	5,679
More than five years	6,573	6,573	7,752
	13,255	13,255	14,597

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

24 Pension commitments

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

Actuarial gains and losses are recognised in full in the period in which they occur. As permitted, actuarial gains and losses are recognised outside profit or loss and presented in the statement of recognised income and expense. The liability recognised in the balance sheet represents the present value of the defined benefit obligation, as reduced by the fair value of plan assets. The cost of providing benefits is determined using the Projected Unit Method.

At 31 December 2007, the expected rate of return on assets is 6.4% pa (2006: 6.4% pa). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the plan was invested in at 31 December 2007.

The estimated employer and employee contributions expected to be paid to the plan during 2008 is £1.5 million (2007: £1.5 million). The estimated contributions take into account the triennial actuarial valuation as at 31 December 2005, which was completed in 2006.

24 Pension commitments continued

The major assumptions in the 31 December 2007 disclosure under IAS19 are shown below and are applied to membership data supplied at that date. This shows the net pension assets and liabilities.

	2007 %	2006 %		
Principal actuarial assumptions:				
Retail Price Inflation	3.4	2.9		
Discount rate	5.7	5.2		
5% LPI Pension increases in payment	3.3	2.9		
General salary increases	4.9	4.4		
Expected return on assets	6.4	6.4		
	Years	Years		
Life expectancy of male aged 65 in 2007	21.9	20.9		
Life expectancy of male aged 65 in 2027	23.0	22.0		
	2007 £000	2006 £000		
Present value of defined benefit obligation	26,968	25,440		
Fair value of plan assets	(26,711)	(24,367)		
Deficit in balance sheet	257	1,073		
	2007 £000	2006 £000		
The amounts recognised in profit or loss are as follows:				
Employer's part of current service cost	624	615		
Interest cost	1,330	1,275		
Expected return on plan assets	(1,591)	(1,316)		
Past service costs	190	(403)		
Total expense recognised in profit or loss	553	171		
	2007 %	2006 %		
	£000	£000		
The current allocation of plan assets is as follows:				
Equities	58	15,499	60	14,528
Bonds	11	2,845	9	2,317
Gilts	25	6,670	23	5,544
Pensioner annuities	3	897	4	886
Property	3	799	3	840
Other	-	1	1	252
Total	100	26,711	100	24,367

continued

24 Pension commitments continued

	2007 £000	2006 £000			
Reconciliation of present value of defined benefit obligation					
Opening defined benefit obligation	25,440	27,371			
Employer's part of current service cost	624	615			
Interest cost	1,330	1,275			
Contributions by plan participants	146	130			
Actuarial gains	(278)	(2,303)			
Benefits paid	(484)	(1,245)			
Past service costs	190	(403)			
Closing defined benefit obligation	26,968	25,440			
	2007 £000	2006 £000			
Reconciliation of fair value of plan assets					
Opening fair value of plan assets	24,367	20,928			
Expected return on plan assets	1,591	1,316			
Actuarial (losses) and gains	(252)	816			
Contributions by the employer	1,343	2,422			
Contributions by plan participants	146	130			
Benefits paid	(484)	(1,245)			
Closing fair value of plan assets	26,711	24,367			
	2007 £000	2006 £000	2005 £000	2004 £000	2003 £000
Principal actuarial assumptions					
Present value of defined benefit obligation	26,968	25,440	27,371	24,010	20,222
Fair value of plan assets	(26,711)	(24,367)	(20,928)	(16,662)	(14,609)
Deficit	257	1,073	6,443	7,348	5,613
Experience adjustments on plan assets					
Amount of gain	252	816	1,724	771	1,592
Percentage of plan assets	1%	3%	8%	5%	11%
Experience adjustments on plan liabilities					
Amount of gain/(loss)	326	39	797	(62)	157
Percentage of the present value of the plan liabilities	1%	–	3%	–	1%
Expense to be recognised immediately outside profit or loss					
Actuarial (gains) and losses	(26)	(3,119)	(20)	(1,766)	708

25 Share based payments

The group operates a share option scheme for the executive director and senior members of staff.

Details of the share options outstanding were:

	2007		2006	
	Share options Number	Weighted average price Pence	Share options Number	Weighted average price Pence
Outstanding at 1 January	611,247	201.00	689,997	202.26
Exercised during the year	(118,813)	222.48	(78,750)	212.10
Outstanding at 31 December	492,434	195.81	611,247	201.00
Exercisable at 31 December	244,440	217.71	168,750	212.10
			2007 Pence	2006 Pence
Weighted average share price at date of exercise			355.89	316.92

Details of the number of option holders is given on page 22 of the directors' report.

Inputs into the Black-Scholes model are as follows:

	2007	2006
Expected volatility	20%	20%
Interest rate	5%	5%
Expected life (years)	3	3

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

The group recognised total expenses of £28,000 (2006: £53,000) in respect of share based payment transactions.

During the year the Deferred Share Bonus Plan made awards in respect of 135,905 with a market value of £482,000, which will be released to executives on 8 March 2010. The shares are held in the ESOT. The cost of the shares is being charged to the income statement over the vesting period.

26 Related party transactions

Group

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

Corporation

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

	2007 £000	2006 £000
Dividends from subsidiaries	2,965	4,950
Interest on intercompany balances charged by subsidiaries	3,265	3,121
Management charges from subsidiaries	400	400
Interest on intercompany balances charged to subsidiaries	3,795	–

During the year the group was restructured. Details of the transactions between the Corporation and its wholly owned subsidiary undertakings in respect of the restructuring are included in note 14.

continued

27 Acquisition of subsidiary undertakings

On 31 January 2007 the group acquired 100% of the issued share capital of Delaware Corporate Services Inc.. Delaware Corporate Services Inc. provides corporate services in Delaware USA.

On 31 October 2007 the group acquired 100% of the share capital of Safecall Limited. Safecall Limited provides whistle blowing services to public and private sector organisations. The transactions have been provided for by the purchase method of accounting and the following is a combined statement of the fair value at acquisition.

	Book value £000	Fair value £000
Net assets required		
Trade and other receivables	113	113
Cash and cash equivalents	393	393
Trade and other payables	(8)	(8)
Deferred income	(176)	(176)
Corporate tax payable	(35)	(35)
Other taxation including social security	(31)	(31)
Total consideration	256	256
Goodwill		4,185
Total consideration		4,441
Satisfied by:		
Cash		2,107
Directly attributable costs		191
Deferred consideration		2,143
		4,441
Net cash outflow arising on acquisition		2,298
Cash consideration		(393)
Cash and cash equivalents acquired		1,905

The goodwill arising on the acquisitions is attributable to the anticipated profitability of the business. The companies contributed £527,000 revenue and £8,000 to the group's profit before tax for the periods between the dates of acquisition and the balance sheet date. If the acquisitions had been completed on the first day of the financial year the group's revenues for the year would have been £49.6 million and the group profit for the year would have been £27.8 million.

The intangibles arising have been allocated to goodwill, consideration will be given to identification of other intangibles in 2008.

Investment trust status

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

Capital gains tax

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

Company share information

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

Individual savings account ('ISA')

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

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

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

Registrars

Our registrars, Computershare Investor Services plc, operate a dedicated telephone service for Law Debenture shareholders – **0870 707 1129**. Shareholders can use this number to access holding balances, dividend payment details, share price data, or to request that a form be sent to their registered address.

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 118th annual general meeting of The Law Debenture Corporation p.l.c. will be held at 11.00am on Tuesday 15 April 2008 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 118th annual general meeting of the Corporation will be held on 15 April 2008 at 11.00am at the Brewers Hall, Aldermanbury Square, London EC2V 7HR for the following purposes:

Ordinary business

1. To receive the report of the directors and the audited accounts for the year ended 31 December 2007.
2. To receive and approve the directors' remuneration report for the year ended 31 December 2007.
3. To declare a final dividend of 8.0p per share in respect of the year ended 31 December 2007.
4. To re-elect D.C.P. McDougall as a director.
5. To re-elect R.J. Williams as a director.
6. To re-elect C.J. Banszky as a director.
7. To re-elect J. A. Kay as a director.
8. To reappoint PKF (UK) LLP as auditors of the Corporation to hold office until the conclusion of the next general meeting at which accounts are laid and to authorise the directors to determine their remuneration.

Special business

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

9. 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 5p each in the capital of the Corporation, in such manner and upon such terms as the directors of the Corporation may from time to time determine, PROVIDED ALWAYS THAT:

- (a) the maximum number hereby authorised to be purchased shall be limited to 17,657,615 shares, or if less, that number of shares which is equal to 14.99% of the Corporation's issued share capital as at the date of the passing of this resolution;
- (b) the minimum price which may be paid for a share shall be 5p;
- (c) the maximum price which may be paid for a share shall be an amount equal to 105% of the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the shares for the five business days immediately preceding the day on which the share is purchased;
- (d) unless previously revoked, renewed or varied, the authority hereby conferred shall expire on the date of the Corporation's next annual general meeting provided that a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of Shares may be made in pursuance of any such contract.

continued

10. General authority to allot shares

THAT:

- (a) the directors be generally and unconditionally authorised pursuant to and in accordance with section 80 of the Companies Act 1985 to exercise for the period ending on the date of the Corporation's next annual general meeting, all the powers of the Corporation to allot relevant securities (as defined in section 80(2) of the said Act) up to an aggregate nominal amount of £294,490;
- (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.

11. Disapplication of statutory pre-emption rights

THAT:

- (a) in exercise of the authority given to the directors by resolution 10 above, the directors be empowered to allot equity securities (as defined in section 94(2) of the said Act) for the period ending on the date of the Corporation's next annual general meeting wholly for cash generally up to an aggregate nominal amount of £294,490 as if section 89(1) of the said Act did not apply to such allotment, provided always that no more than 7.5% of the issued share capital shall be issued on a non pre-emptive basis within any three year period;
- (b) the Corporation may during such period make offers or agreements which would or might require the making of allotments of equity securities or relevant securities as the case may be after the expiry of such period.

12. Amendment to the Corporation's articles of association – directors' fees

THAT:

Article 75 be amended so that the amount of the ordinary remuneration of the non-executive directors which may be determined by the directors is subject to a limit of £200,000 per annum in aggregate, any higher amount needing to be determined by ordinary resolution of the shareholders.

13. Amendment to the Corporation's articles of association – general

THAT:

the new articles of association of the Corporation in the form which has been produced to the meeting and signed by the Chairman thereof for the purpose of identification be adopted as the articles of association of the Corporation to the exclusion of the Corporation's existing articles of association.

Total voting rights and share information

The Corporation confirms that it has an issued share capital at 26 February 2008 of 117,795,963 ordinary shares with voting rights and no restrictions and no special rights with regard to control of the Corporation. There are no other classes of share capital and none of the Corporation's issued shares are held in treasury. Therefore the total number of voting rights in The Law Debenture Corporation p.l.c. is currently 117,795,963.

By order of the board

Law Debenture Corporate Services Limited
Secretary

27 February 2008

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. Proxy rights do not apply to nominated persons although the nominated person may have a right under an agreement with the registered member to appoint a proxy. In addition to instructing a proxy to vote for or against a resolution, the form enables you to instruct a 'vote withheld' if you prefer. A vote withheld is not a vote in law and will not be counted in the calculation of votes. It may be used, for example, to convey a message of dissatisfaction on a particular issue, where the strength of feeling is not so great as to oppose the resolution, but supporting it is not appropriate either.
2. 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. 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 23 April 2008 to shareholders on the register on the record date on 14 March 2008.
5. Resolution 2 is to receive and approve the directors' remuneration report for the year ended 31 December 2007. The remuneration report is set out at pages 30 to 35 of the annual report of the Corporation.
6. Resolution 4: Mr D.C.P. McDougall, having served more than nine years on the board, is required to stand for annual re-election. The board supports his re-election because he leads the board with skill and considerable success. He is highly regarded in the investment trust sector and makes a full contribution to the board, with particular expertise in overseeing investment strategy. His biography is included on page 5 of the annual report.
7. Resolution 5: Mr R.J. Williams, not being independent having become a non-executive director as at 1 January 2005, and having served more than nine years on the board, is required to stand for annual re-election. The board supports his re-election because Mr Williams has continued to provide excellent service as a non-executive director, as evidenced in his appraisal by the chairman, and the board remains confident that he will continue to provide valuable advice on a range of matters connected both with the investment trust and the independent fiduciary services business. His biography is included on page 5 of the annual report.
8. Resolution 6: Mrs C.J. Banzky 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. She has proved to be a very effective managing director, considerably improving profitability of the independent fiduciary services business. Her biography is included on page 5 of the annual report.
9. Resolution 7: Professor John Kay is required under the articles of association to retire and to offer himself for re-election, it being three years since his last election. The board supports his re-election. He provides a valuable insight into economic events and trends, and has been an effective audit committee chairman. His biography is included on page 5 of the annual report.
10. Resolution 8 is to re-appoint PKF (UK) LLP as the Corporation's auditors. PKF (UK) LLP and its predecessor firm have been the Corporation's auditors since October 2002.

11. Special resolution 9 renews the authority given to directors at the last annual general meeting to purchase ordinary shares in the market for cancellation. Such purchases at appropriate times and prices could be a suitable method of enhancing shareholder value and would be applied within guidelines set from time to time by the board. It should be noted that no such purchases would be undertaken if shares were trading at a premium to net asset value.
12. Special resolution 10 renews the authority given to directors at the last annual general meeting to allot unissued capital not exceeding 5,889,798 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 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.
13. Special resolution 11 is proposed because the directors consider that in order to allot shares in the circumstances described in resolution 10 it is in the best interests of the Corporation and its shareholders to allot a maximum of 5,889,798 shares other than on a pre-emptive basis. The board would not, however, issue more than 7.5% of the issued share capital on a non-pre-emptive basis within any three year period.

Resolutions 12 and 13 – amendment to existing articles of association and adoption of new articles of association – explanatory note

14. This is an explanatory note describing the background to special resolutions 12 and 13.
15. Special resolution 12 is proposed to amend existing article 75. This provides, in accordance with Association of British Insurers ('ABI') guidelines, that the ordinary remuneration of the non-executive directors as determined by the directors should be subject to a fixed limit. That limit in the existing articles is £100,000 per annum in aggregate, any higher amount needing to be determined by ordinary resolution of the shareholders. The directors' fees covered by this Article are the fees paid to non-executive directors in their capacity as director (i.e. excluding additional fees paid for attendance at committee meetings). As a matter of expediency, it is proposed that the limit be raised to £200,000. This is in line with the ABI's 'times two' guideline – i.e. that article limits, when put to shareholders for increase, should only be raised by a maximum factor of two. The limit was last increased from £50,000 to £100,000 in 1999, and before that, from £25,000 to £50,000 in 1992. The relevant fees payable under this article have risen steadily over the years with inflation and in 2007 were £91,000. Thus, should the board decide, or be required, to appoint an additional non-executive director, the existing cap could be exceeded. There is no intention to use this additional head room to bring about extraordinary increases in existing directors' fees.

This resolution is proposed separately from the more general resolution 13 because the directors recognise that this issue is not related to The Companies Act 2006 and should not therefore be swept up within the general nature of resolution 13. If shareholders do not approve resolution 12, this will NOT prevent separate approval of resolution 13. The new articles will simply carry forward the existing limit rather than including the proposed higher limit.

16. Resolution 13 is proposed in order to change the Corporation's articles of association so that they are compliant with the Companies Act 2006 ('CA06'). CA06 repeals and replaces the Companies Act 1985. In common with all other listed companies, the Corporation needs to update its articles to be CA06 compliant. The Corporation proposes a single resolution, which is to adopt new articles in their entirety rather than proposing many separate resolutions to deal with each minute change individually.

17. The Corporation has consulted the ABI on the substance of the proposed amendments and on the manner in which shareholders are being asked to consider and approve them. The ABI has confirmed that changes of the nature proposed are routine, not requiring formal consultation with the ABI, and that it is content that the Corporation is acting reasonably in the manner in which the amendments are being proposed for approval. In addition, the United Kingdom Listing Authority has confirmed that article amendments to reflect the changes within CA06 are 'routine', not requiring its pre-approval.
18. The amendments that are proposed to be made to the existing articles are as follows:
- (a) **General** – references throughout the existing articles to the Companies Act 1985, and to clauses of that Act have been replaced by references in the new articles to CA06 and, where necessary, the relevant clause of CA06. The opportunity has been taken to tidy up references to other legislation which has now been superseded.
 - (b) **Resolutions** – the concept of an 'extraordinary resolution' has been abolished under CA06 so references to extraordinary resolutions in the existing articles have been replaced by references to 'special' resolutions in the new articles.
 - (c) **Untraced shareholders** – Existing article 45 gives the Corporation power to sell a shareholder's shares if twelve years has elapsed without communication from the shareholder and without dividends being claimed. Under CA06, this period will reduce to ten years and the new articles will reflect this.
 - (d) **Notice periods** – the notice period for general meetings (other than an annual general meeting) has been reduced to fourteen days from twenty one days, so the new articles reflect this. As a listed company, the Corporation is required to give annual general meeting notice of at least twenty business days, and this requirement is included in the new articles.
 - (e) **Proxies** – Existing articles 61 and 70 have been amended to allow proxies to vote on a show of hands (they were not previously allowed to do so under the Companies Act 1985) and to speak at a general meeting (previously, only allowed with chairman's consent).
 - (f) **Restriction on voting in particular circumstances** – Under section 212 of the Companies Act 1985, a public company can require any shareholder to disclose details of the interested person or persons behind the name on the register. Existing article 64 confers at some length powers to restrict the activities of any shareholder who has failed to comply with a section 212 notice. The equivalent provisions in CA06 requiring any shareholder to disclose shareholder details, being section 793 et seq, go further than the old Act in that they prescribe in law the consequences for failure to comply with a disclosure notice. This adds clarity and means that there is no longer a requirement for the articles to deal with this issue. Accordingly, in the new articles, existing article 64.2 has been amended to adopt the wording of CA06, and existing articles 64.3 to 64.7 have been deleted. Existing article 64.8 becomes new article 64.3 as a consequence.
 - (g) **Directors' interests** – Existing Articles 97 to 99 inclusive deal with matters connected with interests that directors might have in the business considered at board meetings. Under CA06, it will be a requirement that a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. This requirement is very broad and could apply, for example, if a director became a director of another company or a trustee of another organisation. CA06 allows boards of public companies to authorise conflicts and potential conflicts where appropriate, where the articles of association contain a provision to this effect. CA06 also allows the articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The new articles give the directors authority to approve such

continued

situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position. There are safeguards that will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

Accordingly, the new articles contain a proposed new article 97.2, which reads as follows:

'Any potential or actual conflict of interest of a director as defined in section 175 of the Act should be identified by the board of directors who have the power to consider and, if deemed appropriate, authorise the conflict. 'Director' includes persons connected with a director as defined in section 252 of the Act.

The director under consideration must take no part in the discussion, nor vote on the resolution, to authorise the conflict and a majority of the remaining directors voting is required to pass such a resolution.

No authorisation of a potential or actual conflict of interest relieves a director receiving such authorisation from his statutory and fiduciary duties. A register of authorised conflicts should be maintained by the Company and reviewed by the board of directors annually, on the appointment of a new director, on a new appointment being taken up by an existing director, and in the case of authorisation being received for a potential conflict, when a subsequent transaction takes place leading to an actual conflict.

Where a director having received authority for a potential conflict is subsequently judged now to be in a position of actual conflict, the remaining directors must resolve to exclude the relevant director from all discussions on the subject, or resolve to take such other action as deemed appropriate.'

Minor drafting amendments and cross references consequential to new article 97.2 have been made in articles 95, 97.1 and 98.

Documents available for inspection

19. Copies of the following documents may be inspected at the registered office of the Corporation (Fifth Floor, 100 Wood Street, London, EC2V 7EX) during normal business hours on any business day until the conclusion of the annual general meeting:
 - The memorandum of association of the Corporation and current articles;
 - The new articles;
 - The new articles amended in 'track change' to show the proposed insertions, deletions and amendments.
20. The documents are also available online at www.lawdeb.com under 'investor information' within the investment trust section of the site.



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