

Law Debenture



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 portfolio

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

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

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

Independent fiduciary services

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

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

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(Registered in England – No. 30397)

Highlights

	30 June 2011 pence	30 June 2010 pence	31 December 2010 pence
Share price	372.80	278.20	356.60
NAV per share after proposed dividend	361.86	279.40	342.92
Net revenue return per share:			
- Investment portfolio	5.03	4.32	7.07
- Independent fiduciary services	3.55	2.72	6.19
Group net revenue return per share	8.58	7.04	13.26
Capital return per share	15.05	(7.71)	58.22
Dividends per share	4.50	4.20	12.70

Performance to 30 June 2011

	6 months %	12 months %
Share price total return ¹	7.1	39.2
NAV total return ¹	6.8	34.3
FTSE All-Share Index total return	3.0	25.6

¹Including reinvestment of dividends.

Basis of preparation

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

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

Performance

Our net asset value total return for the six months to 30 June 2011 was 6.8%, compared to a total return of 3.0% for the FTSE Actuaries All-Share Index. Net revenue per share was 8.58p, an increase of 21.9% over the corresponding period last year, as a result of a 16.4% increase in the investment portfolio and a 30.5% increase in independent fiduciary services.

Dividend

The board has declared an interim dividend of 4.5p (2010: 4.2p). The dividend will be paid on 8 September 2011 to holders on the record date of 5 August 2011. The current expectation of the directors is that the final dividend will be at least maintained.

Investment portfolio

Equity markets were little changed during the period. They reacted to events as they unfolded but there was no clear direction. On the one hand, company profits have been strong, monetary policy has remained accommodative and the developing world has continued to grow strongly. On the other hand, serious problems persist: the debt problems of recent years have not been resolved, the handling of the euro crisis is not encouraging and two rounds of quantitative easing in the USA do not appear to have had the desired impact on the general economy.

A feature of the period has been the strength of company performance. Corporate debt has fallen and strong cash generation is coming through as profitability increases, driven by well controlled costs and growing sales. Growing profits combined with a high level of dividend cover have delivered dividend growth in our portfolio and this is likely to continue. Against this background we have retained a modest level of gearing, which along with the bias to industrial companies has led to the outperformance over the period.

Activity

The changes to the portfolio have been small. It has been a period in which it has been best to keep with successful companies and not to be tempted to buy shares that appear cheap in companies where there are problems to overcome. The reason is that the world economy is very competitive, which is not helping the weaker companies, while the strength of global trade is rewarding the truly competitive.

Management fee

As previously announced, the management fee payable to Henderson from 1 April 2011 is expressed as a percentage of the net assets of the group, excluding the net assets of the independent fiduciary services business. The percentage amount payable is now 0.3% per annum.

Outlook

Law Debenture's portfolio is a collection of companies. It is not a proxy for the UK economy. The UK companies in the portfolio, it is estimated, have approximately two-thirds of their profits coming from overseas. This is a measure of how outward looking they have become. The valuations are modest and growth prospects real.

Independent fiduciary services

Revenues, net of legal costs recharged to clients, increased by 10.4%. Administrative costs continued to be tightly controlled and consequently profit before taxation increased by 28.0%. New appointments in financial wholesale markets remain at low levels with little sign of any substantial improvement in the corporate bond and securitisation markets. However, global markets continue to grow and we have benefited from increased levels of corporate transactions. The outlook for financial markets remains uncertain, particularly in Europe, but we continue to look for new opportunities and to control our costs.

for the six months ended 30 June 2011 (unaudited)

	30 June 2011			30 June 2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
UK dividends	6,580	–	6,580	5,278	–	5,278
Overseas dividends	1,185	–	1,185	1,425	–	1,425
Overseas special dividends	51	–	51	53	–	53
Interest from securities	222	–	222	327	–	327
	8,038	–	8,038	7,083	–	7,083
Interest income	52	–	52	50	–	50
Independent fiduciary services fees	14,416	–	14,416	14,489	–	14,489
Other income	175	–	175	144	–	144
Total income	22,681	–	22,681	21,766	–	21,766
Net gain/(loss) on investments held at fair value through profit or loss	–	17,744	17,744	–	(8,962)	(8,962)
Gross income and capital gains/(losses)	22,681	17,744	40,425	21,766	(8,962)	12,804
Cost of sales	(1,615)	–	(1,615)	(2,885)	–	(2,885)
Administrative expenses	(8,874)	(64)	(8,938)	(8,627)	(84)	(8,711)
Operating profit	12,192	17,680	29,872	10,254	(9,046)	1,208
Finance costs						
Interest payable	(1,225)	–	(1,225)	(1,234)	–	(1,234)
Profit/(loss) before taxation	10,967	17,680	28,647	9,020	(9,046)	(26)
Taxation	(894)	–	(894)	(754)	–	(754)
Profit/(loss) for period	10,073	17,680	27,753	8,266	(9,046)	(780)
Return/(loss) per ordinary share (pence)	8.58	15.05	23.63	7.04	(7.71)	(0.67)
Diluted return/(loss) per ordinary share (pence)	8.57	15.04	23.61	7.04	(7.71)	(0.67)

Statement of comprehensive income

for the six months ended 30 June 2011 (unaudited)

	30 June 2011			30 June 2010		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit/(loss) for the period	10,073	17,680	27,753	8,266	(9,046)	(780)
Other comprehensive income						
Foreign exchange	–	(109)	(109)	–	407	407
Total comprehensive income/(loss) for the period	10,073	17,571	27,644	8,266	(8,639)	(373)

4 Group statement of financial position

	30 June 2011 (unaudited) £000	30 June 2010 (unaudited) £000	31 December 2010 (audited) £000
Assets			
Non current assets			
Goodwill	2,191	2,266	2,211
Property, plant and equipment	214	268	190
Other intangible assets	85	110	118
Investments held at fair value through profit or loss	459,133	366,858	441,337
Deferred tax assets	662	1,003	871
Total non current assets	462,285	370,505	444,727
Current assets			
Trade and other receivables	4,989	3,339	6,731
Other accrued income and prepaid expenses	5,502	4,730	3,797
Cash and cash equivalents	19,300	14,954	20,030
Total current assets	29,791	23,023	30,558
Total assets	492,076	393,528	475,285
Current liabilities			
Trade and other payables	10,818	7,967	11,446
Short term borrowings	–	77	77
Corporation tax payable	1,109	1,037	1,119
Other taxation including social security	622	446	846
Deferred income	3,848	4,127	3,714
Total current liabilities	16,397	13,654	17,202
Non current liabilities and deferred income			
Long term borrowings	39,378	39,351	39,364
Retirement benefit obligations	561	1,613	876
Deferred income	5,433	6,035	5,277
Total non current liabilities	45,372	46,999	45,517
Total net assets	430,307	332,875	412,566
Equity and liabilities			
Called up share capital	5,904	5,903	5,904
Share premium	8,070	8,038	8,066
Capital redemption	8	8	8
Share based payments	201	201	201
Own shares	(1,717)	(1,816)	(1,794)
Capital reserves	386,346	291,290	368,666
Retained earnings	31,082	28,424	30,993
Translation reserve	413	827	522
Total equity	430,307	332,875	412,566

for the six months ended 30 June 2011

	30 June 2011 (unaudited) £000	30 June 2010 (unaudited) £000	31 December 2010 (audited) £000
Operating activities			
Operating profit before interest payable and taxation	29,872	1,208	88,022
(Gains)/losses on investments	(17,680)	9,046	(68,330)
Foreign exchange	20	(82)	(24)
Depreciation of property, plant and equipment	63	67	122
Amortisation of intangible assets	33	31	95
Decrease/(increase) in receivables	37	125	(2,334)
(Decrease)/increase in payables	(548)	(369)	2,352
Income gain on OEICs	(40)	(120)	(347)
Normal pension contributions in excess of cost	(315)	(315)	(769)
Cash generated from operating activities	11,442	9,591	18,787
Taxation	(695)	(535)	(1,325)
Interest paid	(1,225)	(1,234)	(2,452)
Operating cash flow	9,522	7,822	15,010
Investing activities			
Acquisition of property, plant and equipment	(87)	(64)	(58)
Expenditure on intangible assets	-	(28)	(86)
Purchase of investments	(20,403)	(20,995)	(36,262)
Sale of investments	20,272	18,308	36,676
Cash flow from investing activities	(218)	(2,779)	270
Financing activities			
Dividends paid	(9,984)	(9,378)	(14,308)
Proceeds of increase in share capital	4	-	29
Purchase of own shares	77	224	246
Net cash flow from financing activities	(9,903)	(9,154)	(14,033)
Net (decrease)/increase in cash and cash equivalents	(599)	(4,111)	1,247
Cash and cash equivalents at beginning of period	19,953	18,612	18,612
Foreign exchange (losses)/gains on cash and cash equivalents	(54)	376	94
Cash and cash equivalents at end of period	19,300	14,877	19,953
Cash and cash equivalents comprise			
Cash and cash equivalents	19,300	14,954	20,030
Bank overdrafts	-	(77)	(77)
	19,300	14,877	19,953

Group statement of changes in equity

	Share capital £000	Share premium £000	Own shares £000
Balance at 1 January 2011	5,904	8,066	(1,794)
Net profit	–	–	–
Other comprehensive income:			
Foreign exchange	–	–	–
Total comprehensive income for the period	–	–	–
Issue of shares	–	4	–
Movement in own shares	–	–	77
Dividend relating to 2010	–	–	–
Total equity at 30 June 2011	5,904	8,070	(1,717)

Group segmental analysis

		Investment portfolio	
	30 June 2011 £000	30 June 2010 £000	31 December 2010 £000
Revenue			
Segment income	8,038	7,083	12,449
Other income	71	63	87
Cost of sales	–	–	–
Administration costs	(958)	(867)	(1,679)
	7,151	6,279	10,857
Interest (net)	(1,245)	(1,214)	(2,565)
Return, including profit on ordinary activities before taxation	5,906	5,065	8,292
Taxation	–	–	–
Return, including profit attributable to shareholders	5,906	5,065	8,292
Revenue return per ordinary share (pence)	5.03	4.32	7.07
Assets	468,162	370,957	450,287
Liabilities	(53,635)	(52,924)	(51,665)
Total net assets	414,527	318,033	398,622

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

Capital redemption £000	Share based payments £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
8	201	522	368,666	30,993	412,566
-	-	-	17,680	10,073	27,753
-	-	(109)	-	-	(109)
-	-	(109)	17,680	10,073	27,644
-	-	-	-	-	4
-	-	-	-	-	77
-	-	-	-	(9,984)	(9,984)
8	201	413	386,346	31,082	430,307

Independent fiduciary services			Total		
30 June 2011 £000	30 June 2010 £000	31 December 2010 £000	30 June 2011 £000	30 June 2010 £000	31 December 2010 £000
14,416	14,489	30,381	22,454	21,572	42,830
104	81	31	175	144	118
(1,615)	(2,885)	(6,184)	(1,615)	(2,885)	(6,184)
(7,916)	(7,760)	(15,689)	(8,874)	(8,627)	(17,368)
4,989	3,925	8,539	12,140	10,204	19,396
72	30	409	(1,173)	(1,184)	(2,156)
5,061	3,955	8,948	10,967	9,020	17,240
(894)	(754)	(1,679)	(894)	(754)	(1,679)
4,167	3,201	7,269	10,073	8,266	15,561
3.55	2.72	6.19	8.58	7.04	13.26
23,914	22,571	24,998	492,076	393,528	475,285
(8,134)	(7,729)	(11,054)	(61,769)	(60,653)	(62,719)
15,780	14,842	13,944	430,307	332,875	412,566

By geographical location

	Valuation 31 December 2010 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation/ (depreciation) £000	Valuation 30 June 2011 £000	%
United Kingdom	313,388	12,304	(55)	(15,799)	15,994	325,832	70.9
North America	30,250	6,931	(7)	(3,055)	(217)	33,902	7.4
Europe	41,450	1,168	(2)	(1,418)	3,353	44,551	9.7
Japan	18,928	–	–	–	(590)	18,338	4.0
Other Pacific	37,321	–	–	–	(811)	36,510	8.0
	441,337	20,403	(64)	(20,272)	17,729	459,133	100.0

By sector (excluding cash)

	As at 30 June 2011 %	As at 31 December 2010 %
Oil & gas	10.9	10.7
Basic materials	3.3	3.2
Industrials	24.6	22.7
Consumer goods	12.3	12.6
Health care	8.1	7.4
Consumer services	7.6	9.7
Telecommunications	2.6	2.8
Utilities	4.5	4.3
Financials	14.0	14.3
Technology	0.6	0.1
Pooled equity investments	11.5	12.2
	100.0	100.0

as at 30 June 2011

UK unless otherwise stated.

Holdings in italics were acquired after 31 December 2010.

	£000	%
Oil & gas		
Oil & gas producers		
Royal Dutch Shell	15,321	3.34
BP	12,144	2.64
BG	4,946	1.08
Total (Fra)	2,212	0.48
	34,623	7.54
Oil equipment & services		
Schlumberger (USA)	5,378	1.17
John Wood	3,238	0.71
National Oilwell Varco (USA)	2,434	0.53
<i>Gibson Energy (Can)</i>	2,243	0.49
Saipem (Ita)	1,242	0.27
Diamond Offshore Drilling (USA)	1,096	0.24
	15,631	3.41
Basic materials		
Chemicals		
Croda	3,772	0.82
Asahi Kasei (Jap)	1,663	0.36
Brenntag (Ger)	881	0.19
	6,316	1.37
Forestry & paper		
Mondi	3,723	0.81
	3,723	0.81
Mining		
BHP Billiton	4,902	1.07
	4,902	1.07
Industrials		
Construction & materials		
Balfour Beatty	2,975	0.65
CRH (Ire)	1,770	0.39
Marshalls	674	0.15
	5,419	1.19
Aerospace & defence		
Senior	17,185	3.74
Meggitt	6,005	1.31
Rolls Royce	4,512	0.98
BAE Systems	3,185	0.69
Hampson Industries	255	0.06
	31,142	6.78

	£000	%
General industrials		
Smith (DS)	4,642	1.01
Smiths	1,800	0.39
<i>3M (USA)</i>	1,476	0.32
Siemens (Ger)	1,109	0.24
	9,027	1.96
Electronic & electrical equipment		
Morgan Crucible	7,846	1.71
Applied Materials (USA)	4,052	0.88
<i>Spectris</i>	3,184	0.69
TT Electronics	2,900	0.63
Legrand (Fra)	785	0.17
	18,767	4.08
Industrial engineering		
Weir Group	6,378	1.39
Hill & Smith	6,033	1.31
Cummins (USA)	5,154	1.12
Caterpillar (USA)	2,652	0.58
Renold	1,516	0.33
ABB (Swi)	1,129	0.25
Severfield-Rowen	543	0.12
	23,405	5.10
Industrial transportation		
Kuehne & Nagel (Swi)	2,016	0.44
BBA Aviation	1,630	0.35
Goldenport	788	0.17
Wincanton	558	0.12
Autologic	352	0.08
	5,344	1.16
Support services		
Interserve	6,859	1.49
Carillion	4,693	1.02
SGS (Swi)	1,824	0.40
Deutsche Post (Ger)	1,723	0.38
Sodexo (Fra)	1,365	0.30
Johnson Service	1,363	0.30
<i>Babcock</i>	988	0.22
Adecco (Swi)	797	0.17
Augean	295	0.06
	19,907	4.34

continued

	£000	%
Consumer goods		
Automobiles & parts		
GKN	10,705	2.33
Toyota Motor (Jap)	1,752	0.38
Bridgestone (Jap)	1,067	0.23
	13,524	2.94
Beverages		
Diageo	5,474	1.19
Pernod-Ricard (Fra)	783	0.17
	6,257	1.36
Food producers		
Nestlé (Swi)	3,657	0.80
Unilever	3,507	0.76
Associated British Foods	3,246	0.71
Dairy Crest	740	0.16
Uniq	64	0.01
	11,214	2.44
Household goods		
Bellway	3,575	0.78
Redrow	2,752	0.60
Reckitt Benckiser	2,575	0.56
Essilor (Fra)	1,488	0.32
	10,390	2.26
Leisure goods		
Harvard International	156	0.03
	156	0.03
Tobacco		
British American Tobacco	8,193	1.78
Imperial Tobacco	5,693	1.24
Swedish Match (Swe)	1,311	0.29
	15,197	3.31
Health care		
Health care equipment & services		
Fresenius (Ger)	4,501	0.98
Becton Dickinson (USA)	4,025	0.88
Smith & Nephew	3,125	0.68
Fresenius Medical Care (Ger)	2,267	0.49
	13,918	3.03

	£000	%
Pharmaceuticals & biotechnology		
GlaxoSmithKline	10,672	2.32
AstraZeneca	4,660	1.01
Shire	3,888	0.85
Novartis (Swi)	2,645	0.58
Roche (Swi)	1,351	0.29
	23,216	5.05
Consumer services		
Food & drug retailers		
Tesco	4,823	1.05
Sainsbury	1,646	0.36
	6,469	1.41
General retailers		
Dunelm	3,501	0.76
Inditex (Spa)	1,781	0.39
Lawson (Jap)	1,300	0.28
Findel	1,196	0.26
Topps Tiles	428	0.09
	8,206	1.78
Media		
Reed Elsevier	4,245	0.92
Pearson	3,234	0.70
Daily Mail & General Trust	2,090	0.46
Toppan Printing (Jap)	862	0.19
Yell	72	0.02
	10,503	2.29
Travel & leisure		
Greene King	2,826	0.62
Carnival	2,507	0.55
Marstons	2,085	0.45
International Consolidated Airlines	1,459	0.32
Carnival (USA)	849	0.18
	9,726	2.12

	£000	%
Telecommunications		
Fixed line telecommunications		
BT	2,619	0.58
Cable & Wireless Worldwide	461	0.10
Cable & Wireless Communications	405	0.09
	3,485	0.77
Mobile telecommunications		
Vodafone	6,302	1.37
Inmarsat	2,017	0.44
	8,319	1.81
Utilities		
Electricity		
Scottish & Southern Energy	4,179	0.91
Scottish & Southern Energy 5.75% 05/02/14	2,530	0.55
Iberdrola (Spa)	922	0.20
	7,631	1.66
Gas water & multiutilities		
National Grid 6.125% 15/04/14	5,820	1.27
National Grid	3,430	0.75
Severn Trent	2,991	0.65
Centrica	808	0.18
	13,049	2.85
Financials		
Banks		
HSBC	11,120	2.42
Banco Santander (Spa)	2,471	0.55
Barclays	1,795	0.39
BNP Paribas (Fra)	1,254	0.27
UBS (Swi)	808	0.18
	17,448	3.81
Nonlife insurance		
Hiscox	5,650	1.23
Amlin	4,873	1.06
Chubb (USA)	2,925	0.64
Hardy Underwriting Bermuda	500	0.11
Chaucer	405	0.09
	14,353	3.13

	£000	%
Life insurance/assurance		
Aviva	3,446	0.75
Prudential	3,190	0.69
Chesnara	2,337	0.51
Irish Life & Permanent (Ire)	10	–
	8,983	1.95
Real estate investments & services		
St Modwen Properties	1,847	0.40
	1,847	0.40
Real estate investment trusts		
Great Portland Estate	3,052	0.66
Land Securities	2,741	0.60
Mucklow (A&J) Group	2,482	0.54
Segro	2,018	0.44
	10,293	2.24
Financial services		
IP Group	2,871	0.63
International Personal Finance	2,758	0.60
Provident Financial	2,647	0.58
Intermediate Capital Group	1,449	0.32
Deutsche Börse (Ger)	1,136	0.25
	10,861	2.38
Equity investment instruments		
Henderson Asia Pacific Capital Growth	12,369	2.69
Henderson Japan Capital Growth	11,694	2.55
Baillie Gifford Pacific	9,497	2.07
First State Asia Pacific	8,594	1.87
Scottish Oriental Smaller Company Trust	6,050	1.32
Herald Investment Trust	4,475	0.97
	52,679	11.47
Technology		
Software & computer services		
Microsoft (USA)	1,618	0.35
Amadeus IT (Spa)	1,270	0.28
	2,888	0.63

Principal risks and uncertainties

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

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

Related party transactions

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

On behalf of the board

Douglas McDougall

22 July 2011

Notes

1. The financial information presented herein does not amount to full statutory accounts within the meaning of Section 435 of the Companies Act 2006 and has neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. The annual report and financial statements for 2010 have been filed with the Registrar of Companies. The independent auditors' report on the annual report and financial statements for 2010 was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006
2. The calculations of NAV and earnings per share are based on:
 NAV: shares at end of the period 117,454,638 (30 June 2010: 117,366,193) (31 December 2010: 117,399,342).
 Income: average shares during the period 117,449,590 (30 June 2010: 117,356,194) (31 December 2010: 117,366,347).

