

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 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 and structured finance administration, pension trusts, corporate services (including agent for service of process) and whistle blowing 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 2010 pence	30 June 2009 pence	31 December 2009 pence
Share price	278.20	229.50	284.50
NAV per share after proposed dividend	279.40	218.19	283.95
Net revenue return per share			
- Investment trust	4.32	4.36	7.33
- Independent fiduciary services	2.72	2.26	5.69
Group net revenue return per share	7.04	6.62	13.02
Capital return per share	(7.71)	(3.38)	62.77
Dividends per share	4.20	4.20	12.20

Performance to 30 June 2010

	6 months %	12 months %
Share price total return ¹	0.4	26.3
NAV total return ¹	(0.4)	33.1
FTSE All-Share Index total return	(6.1)	21.1

¹Including reinvestment of dividends

Basis of preparation

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

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

Performance

Our net asset value total return for the six months to 30 June 2010 was (0.4)%, compared to a total return of (6.1)% for the FTSE Actuaries All-Share Index.

Profit (revenue) attributable to shareholders was £8.3 million, an increase of 6.5% over the corresponding period last year, as a result of a 21.1% increase in independent fiduciary services, offset by a 1.0% fall in the investment trust.

Dividend

The board has declared an interim dividend of 4.2p. The dividend is payable on 8 September 2010 to shareholders on the register on 13 August 2010. The current expectation of the directors is that the final dividend will be maintained and that its payment next year will be in tax year 2011/12.

Investment trust

Although the NAV has hardly changed over the period, equity markets have remained volatile with investors lacking confidence. This is because of major unresolved issues in the global banking sector and concerns over whether the economy will suffer a 'double dip' recession. Weighed against this, news at company level has been good. Firms have been reducing their costs and paying down debts, while sales have increased. The result has been an expansion of operating margin and better than expected profits. Industrial companies have been particular beneficiaries.

The improving corporate performance has encouraged us to increase equity exposure. We have reduced the holding in short dated corporate bonds to buy good quality high yielding equities. Dividends from companies are expected to grow over the coming year as cash generation is strong. The global economy should continue to expand aided by the developing economies of Asia and South America. Companies that provide value added products will benefit from this growth and the portfolio is focussed on such companies. The equity gearing at the period end was 9.3%.

Independent fiduciary services

Independent fiduciary services profit before interest and tax rose by 8.0%, compared with the corresponding period last year. While gross revenues were, on the face of it, considerably down on the previous year, income net of cost of sales increased by 4.7%. Cost of sales are largely attributable to legal fees incurred and recharged to third parties and are included in gross revenue. In the corresponding period, cost of sales were exceptionally high due to the level of activity on corporate trust restructurings. Taxation for the six months to 30 June 2010 was significantly reduced, compared to the corresponding period last year, as the tax relief available to independent fiduciary services from the investment trust has increased because foreign dividends are no longer taxable. Consequently net revenue return per share has increased by 20.4%, while profit before taxation has increased by 9.1%.

The number of new transactions and appointments continues to be below historic levels, as uncertainty in the financial markets persists. Activity levels in pre-existing transactions remain high and the cost base is well controlled. We continue to take advantage of any new opportunities that arise within the existing businesses and look to diversify into other areas where the expertise of an independent third party is required.

for the six months ended 30 June 2010 (unaudited)

	30 June 2010			30 June 2009		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
UK dividends	5,278	–	5,278	4,745	–	4,745
UK special dividends	–	–	–	29	–	29
Overseas dividends	1,425	–	1,425	1,549	–	1,549
Overseas special dividends	53	–	53	–	–	–
Interest from securities	327	–	327	468	–	468
	7,083	–	7,083	6,791	–	6,791
Interest income	50	–	50	202	–	202
Independent fiduciary services fees	14,489	–	14,489	18,672	–	18,672
Other income	144	–	144	257	–	257
Total income	21,766	–	21,766	25,922	–	25,922
Net (loss) on investments held at fair value through profit or loss	–	(8,962)	(8,962)	–	(3,859)	(3,859)
Gross income and capital (losses)	21,766	(8,962)	12,804	25,922	(3,859)	22,063
Cost of sales	(2,885)	–	(2,885)	(7,556)	–	(7,556)
Administrative expenses	(8,627)	(84)	(8,711)	(8,240)	(98)	(8,338)
Operating profit	10,254	(9,046)	1,208	10,126	(3,957)	6,169
Finance costs						
Interest payable	(1,234)	–	(1,234)	(1,226)	–	(1,226)
(Loss)/profit before taxation	9,020	(9,046)	(26)	8,900	(3,957)	4,943
Taxation	(754)	–	(754)	(1,142)	–	(1,142)
(Loss)/profit for period	8,266	(9,046)	(780)	7,758	(3,957)	3,801
(Loss)/return per ordinary share (pence)	7.04	(7.71)	(0.67)	6.62	(3.38)	3.24
Diluted (loss)/return per ordinary share (pence)	7.04	(7.71)	(0.67)	6.62	(3.38)	3.24

Statement of comprehensive income

for the six months ended 30 June 2010 (unaudited)

	30 June 2010			30 June 2009		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Profit/(loss) for the period	8,266	(9,046)	(780)	7,758	(3,957)	3,801
Other comprehensive income						
Foreign exchange	–	407	407	–	(252)	(252)
Total comprehensive (loss)/income for the period	8,266	(8,639)	(373)	7,758	(4,209)	3,549

4 Group statement of financial position

	30 June 2010 (unaudited) £000	30 June 2009 (unaudited) £000	31 December 2009 (audited) £000
Assets			
Non current assets			
Goodwill	2,266	3,088	2,187
Property, plant and equipment	268	433	254
Other intangible assets	110	136	127
Investments held at fair value through profit or loss	366,858	291,288	373,066
Deferred tax assets	1,003	1,999	1,083
Total non current assets	370,505	296,944	376,717
Current assets			
Trade and other receivables	3,339	5,477	3,135
Other accrued income and prepaid expenses	4,730	4,347	5,059
Corporation tax receivable	–	271	221
Other taxation including social security	–	34	–
Cash and cash equivalents	14,954	20,191	18,688
Total current assets	23,023	30,320	27,103
Total assets	393,528	327,264	403,820
Current liabilities			
Trade and other payables	7,967	8,901	7,893
Short term borrowings	77	75	76
Corporation tax payable	1,037	1,469	1,119
Other taxation including social security	446	–	395
Deferred income	4,127	4,062	4,303
Total current liabilities	13,654	14,507	13,786
Non current liabilities and deferred income			
Long term borrowings	39,351	39,324	39,338
Retirement benefit obligations	1,613	5,200	1,928
Deferred income	6,035	6,849	6,366
Contingent purchase consideration	–	900	–
Total non current liabilities	46,999	52,273	47,632
Total net assets	332,875	260,484	342,402
Equity and liabilities			
Called up share capital	5,903	5,902	5,903
Share premium	8,038	7,971	8,038
Capital redemption	8	8	8
Share based payments	201	201	201
Own shares	(1,816)	(2,257)	(2,040)
Capital reserves	291,290	222,806	300,336
Retained earnings	28,424	25,319	29,536
Translation reserve	827	534	420
Total equity	332,875	260,484	342,402

for the six months ended 30 June 2010

	30 June 2010 (unaudited) £000	30 June 2009 (unaudited) £000	31 December 2009 (audited) £000
Operating activities			
Operating profit before interest payable and taxation	1,208	6,169	93,524
Losses/(gains) on investments	9,046	3,957	(73,573)
Foreign exchange	(82)	97	94
Depreciation of property, plant and equipment	67	82	271
Amortisation of intangible assets	31	20	61
Gain on adjustment of pension benefits	–	–	(694)
Decrease/(increase) in receivables	125	(1,816)	(152)
(Decrease) in payables	(369)	(327)	(1,168)
Income gain on OEICs	(120)	(164)	(89)
UK and overseas withholding tax deducted at source	–	(158)	(158)
Normal pension contributions in excess of cost	(315)	(278)	(577)
Cash generated from operating activities	9,591	7,582	17,539
Taxation	(535)	(1,375)	(2,471)
Interest paid	(1,234)	(1,226)	(2,451)
Operating cash flow	7,822	4,981	12,617
Investing activities			
Acquisition of property, plant and equipment	(64)	(42)	(48)
Expenditure on intangible assets	(28)	(73)	(105)
Purchase of investments	(20,995)	(50,066)	(82,236)
Sale of investments	18,308	43,676	71,475
Cash flow from investing activities	(2,779)	(6,505)	(10,914)
Financing activities			
Dividends paid	(9,378)	(9,368)	(14,291)
Proceeds of increase in share capital	–	–	68
Purchase of own shares	224	(120)	97
Net cash flow from financing activities	(9,154)	(9,488)	(14,126)
Net decrease in cash and cash equivalents	(4,111)	(11,012)	(12,423)
Cash and cash equivalents at beginning of period	18,612	31,505	31,505
Foreign exchange gains/(losses) on cash and cash equivalents	376	(377)	(470)
Cash and cash equivalents at end of period	14,877	20,116	18,612
Cash and cash equivalents comprise			
Cash and cash equivalents	14,954	20,191	18,688
Bank overdrafts	(77)	(75)	(76)
	14,877	20,116	18,612

Group statement of changes in equity

	Share capital £000	Share premium £000	Own shares £000
Balance at 1 January 2010	5,903	8,038	(2,040)
Net loss for the period	–	–	–
Other comprehensive income			
Foreign exchange	–	–	–
Total comprehensive loss for the period	–	–	–
Movement in own shares	–	–	224
Dividend relating to 2009	–	–	–
Total equity at 30 June 2010	5,903	8,038	(1,816)

Group segmental analysis

	30 June 2010 £000	30 June 2009 £000	Investment trust 31 December 2009 £000
Revenue			
Segment income	7,083	6,791	11,870
Other income	63	212	587
Cost of sales	–	–	–
Administration costs	(867)	(713)	(1,365)
	6,279	6,290	11,092
Interest (net)	(1,214)	(1,016)	(2,347)
Return, including profit on ordinary activities before taxation	5,065	5,274	8,745
Taxation	–	(158)	(158)
Return, including profit attributable to shareholders	5,065	5,116	8,587
Revenue return per ordinary share (pence)	4.32	4.36	7.33

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

Capital redemption £000	Share based payments £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
8	201	420	300,336	29,536	342,402
–	–	–	(9,046)	8,266	(780)
–	–	407	–	–	407
–	–	407	(9,046)	8,266	(373)
–	–	–	–	–	224
–	–	–	–	(9,378)	(9,378)
8	201	827	291,290	28,424	332,875

Independent fiduciary services			Total		
30 June 2010 £000	30 June 2009 £000	31 December 2009 £000	30 June 2010 £000	30 June 2009 £000	31 December 2009 £000
14,489	18,672	34,589	21,572	25,463	46,459
81	45	–	144	257	587
(2,885)	(7,556)	(11,521)	(2,885)	(7,556)	(11,521)
(7,760)	(7,527)	(14,475)	(8,627)	(8,240)	(15,840)
3,925	3,634	8,593	10,204	9,924	19,685
30	(8)	162	(1,184)	(1,024)	(2,185)
3,955	3,626	8,755	9,020	8,900	17,500
(754)	(984)	(2,085)	(754)	(1,142)	(2,243)
3,201	2,642	6,670	8,266	7,758	15,257
2.72	2.26	5.69	7.04	6.62	13.02

By geographical location

	Valuation 31 December 2009 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	(Depreciation)/ appreciation £000	Valuation 30 June 2010 £000	%
United Kingdom	266,534	16,046	(77)	(14,885)	(7,979)	259,639	70.7
North America	18,397	1,444	(2)	–	941	20,780	5.7
Europe	43,117	3,505	(5)	(3,423)	(3,387)	39,807	10.9
Japan	15,890	–	–	–	861	16,751	4.6
Other Pacific	29,128	–	–	–	753	29,881	8.1
	373,066	20,995	(84)	(18,308)	(8,811)	366,858	100.0

By sector (excluding cash)

	As at 30 June 2010 %	As at 31 December 2009 %
Oil & gas	8.8	10.3
Basic materials	3.0	2.7
Industrials	22.1	19.4
Consumer goods	12.9	14.0
Health care	8.0	7.8
Consumer services	9.8	9.8
Telecommunications	3.0	3.0
Utilities	4.8	4.3
Financials	15.7	17.4
Pooled equity investments	11.9	11.3
	100.0	100.0

as at 30 June 2010

UK unless otherwise stated.

Holdings in italics were acquired after 31 December 2009.

	£000	%
Oil & gas		
Oil & gas producers		
Royal Dutch Shell	11,000	3.00
BP	8,610	2.35
BG	2,515	0.69
Total (Fra)	1,860	0.51
	23,985	6.55
Oil equipment & services		
Schlumberger (USA)	3,696	1.01
John Wood	1,566	0.43
National Oilwell Varco (USA)	1,105	0.30
<i>Diamond Offshore Drilling (USA)</i>	1,038	0.28
Saipem (Ita)	797	0.22
	8,202	2.24
Basic materials		
Chemicals		
Croda	2,016	0.55
Asahi Kasei (Jap)	1,411	0.38
Syngenta (Swi)	931	0.25
	4,358	1.18
Forestry & paper		
Mondi	2,305	0.63
	2,305	0.63
Mining		
BHP Billiton	3,507	0.96
<i>Rio Tinto</i>	742	0.20
	4,249	1.16
Industrials		
Construction & materials		
Balfour Beatty	2,304	0.63
CRH (Ire)	1,792	0.49
Marshalls	506	0.14
	4,602	1.26
Aerospace & defence		
Senior	11,608	3.16
Meggitt	4,947	1.35
Rolls Royce	3,938	1.07
BAE Systems	2,351	0.64
<i>Hampson Industries</i>	525	0.14
	23,369	6.36

	£000	%
General industrials		
Tomkins	2,834	0.77
Smith (DS)	2,229	0.61
Smiths	1,607	0.44
Siemens (Ger)	789	0.22
	7,459	2.04
Electronic & electrical equipment		
Morgan Crucible	4,710	1.28
Applied Materials (USA)	4,017	1.10
TT Electronics	1,385	0.38
	10,112	2.76
Industrial engineering		
Hill & Smith	5,162	1.41
Cummins (USA)	4,353	1.19
Weir Group	3,630	0.99
Caterpillar (USA)	1,606	0.44
ABB (Swi)	1,116	0.30
Renold	961	0.26
Severfield-Rowen	526	0.14
	17,354	4.73
Industrial transportation		
Kuehne & Nagel (Swi)	1,482	0.40
Wincanton	1,131	0.31
BBA Aviation	916	0.25
AP Moller-Maersk (Den)	708	0.19
Autologic	368	0.10
	4,605	1.25
Support services		
Interserve	4,230	1.15
Carillion	3,856	1.05
Sodexo (Fra)	1,573	0.43
SGS (Swi)	1,404	0.38
<i>Deutsche Post (Ger)</i>	1,032	0.28
Johnson Service	702	0.19
<i>Adecco (Swi)</i>	641	0.17
Augean	234	0.06
	13,672	3.71

10 Investment portfolio valuation

continued

	£000	%
Consumer goods		
Automobiles & parts		
GKN	5,364	1.46
Toyota Motor (Jap)	1,628	0.44
Bridgestone (Jap)	800	0.22
	7,792	2.12
Beverages		
Diageo	4,554	1.24
Pernod-Ricard (Fra)	668	0.18
	5,222	1.42
Food producers		
Unilever	3,152	0.86
Nestlé (Swi)	3,064	0.84
Associated British Foods	2,924	0.80
Dairy Crest	738	0.20
Uniq	156	0.04
Premier Foods	46	0.01
	10,080	2.75
Household goods		
Bellway	3,078	0.84
Redrow	2,504	0.68
Reckitt Benckiser	2,347	0.64
Essilor (Fra)	2,384	0.65
	10,313	2.81
Leisure goods		
Harvard International	396	0.11
	396	0.11
Tobacco		
British American Tobacco	7,476	2.04
Imperial Tobacco	5,165	1.41
Swedish Match (Swe)	921	0.25
	13,562	3.70
Health care		
Health care equipment & services		
Fresenius (Ger)	3,098	0.84
Smith & Nephew	2,987	0.81
Fresenius Medical Care (Ger)	1,775	0.48
	7,860	2.13

	£000	%
Pharmaceuticals & biotechnology		
GlaxoSmithKline	9,144	2.49
AstraZeneca	4,754	1.30
Shire	3,435	0.94
Novartis (Swi)	2,266	0.62
Sanofi-Aventis (Fra)	932	0.25
Roche (Swi)	924	0.25
	21,455	5.85
Consumer services		
Food & drug retailers		
Tesco	4,561	1.24
Carrefour (Fra)	911	0.25
	5,472	1.49
General retailers		
Dunelm	2,966	0.81
Inditex (Spa)	1,403	0.38
Lawson (Jap)	1,171	0.32
Findel	711	0.19
Topps Tiles	371	0.10
	6,622	1.80
Media		
Reed Elsevier	3,736	1.02
Pearson	2,442	0.67
WPP	2,223	0.61
BSkyB	2,101	0.57
Daily Mail & General Trust	1,975	0.54
Thomson Reuters (Can)	1,725	0.47
Toppan Printing (Jap)	964	0.26
<i>Kabel Deutschland (Ger)</i>	563	0.15
Yell	306	0.08
Johnston Press	192	0.05
	16,227	4.42
Travel & leisure		
Greene King	2,275	0.62
Marstons	1,902	0.52
Carnival	1,176	0.32
British Airways	1,127	0.31
Carnival (USA)	733	0.20
<i>Thomas Cook</i>	446	0.12
	7,659	2.09

	£000	%
Telecommunications		
Fixed line telecommunications		
BT	1,691	0.46
Cable & Wireless Worldwide	866	0.24
Cable & Wireless Communications	578	0.17
	3,135	0.87

Mobile telecommunications		
Vodafone	5,303	1.45
Inmarsat	2,592	0.71
	7,895	2.16

Utilities

Electricity		
Scottish & Southern Energy	3,354	0.91
Scottish & Southern Energy 5.75% 5/2/14	2,540	0.69
Iberdrola (Spain)	614	0.17
	6,508	1.77

Gas water & multiutilities

National Grid 6.125% 15/4/14	5,835	1.59
National Grid	2,749	0.75
Severn Trent	2,501	0.68
	11,085	3.02

Financials

Banks

HSBC	10,458	2.85
Standard Chartered	3,273	0.89
Banco Santander (Spa)	2,460	0.67
Barclays	1,894	0.52
BNP Paribas (Fra)	956	0.26
UBS (Swi)	772	0.21
ING (Net)	607	0.17
	20,420	5.57

Nonlife insurance

Amlin	4,649	1.27
Hiscox	4,614	1.26
Chubb (USA)	2,507	0.68
Hardy Underwriting Bermuda	442	0.12
Chaucer	318	0.09
	12,530	3.42

	£000	%
Life insurance/assurance		
Aviva	2,466	0.67
Prudential	2,254	0.61
Old Mutual	1,654	0.45
Irish Life & Permanent (Ire)	498	0.14
	6,872	1.87

Real estate investments & services

St Modwen Properties	1,682	0.46
	1,682	0.46

Real estate investment trusts

Land Securities	2,496	0.68
Great Portland Estate	2,237	0.61
Mucklow (A&J) Group	2,090	0.57
Hammerson	1,716	0.47
Segro	1,640	0.45
	10,179	2.78

Financial services

Provident Financial	2,307	0.63
International Personal Finance	1,429	0.39
Intermediate Capital Group	1,125	0.31
Deutsche Börse (Ger)	823	0.22
	5,684	1.55

Equity investment instruments

Henderson Japan Capital Growth	10,777	2.94
Henderson Asia Pacific Capital Growth	10,393	2.83
Baillie Gifford Pacific	8,059	2.20
First State Asia Pacific	7,009	1.91
Scottish Oriental Smaller Company Trust	4,420	1.20
Herald Investment Trust	3,013	0.82
	43,671	11.90

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 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 2010

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 they have neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. The annual report and financial statements for 2009 have been filed with the Registrar of Companies. The independent auditors' report on the annual report and financial statements for 2009 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 117,366,193 (30 June 2009: 117,130,631) (31 December 2009: 117,286,720).
 Income: average shares during the period 117,356,194 (30 June 2009: 117,153,099) (31 December 2009: 117,206,258).

