Annual Report 2006

Law Debenture

The Law Debenture Corporation p.l.c.

Contents

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

Investment trust

We are a global 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.

Trustee and related services

We are a leading independent provider of professional trustee, fiduciary and related services (including structured finance administration, corporate services and agent for service of process) to the wholesale markets and to occupational pension schemes. We have offices in London, 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.

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
Net assets (£m)	190.6	233.0	250.2	287.6	294.6	260.3	199.6	241.7	272.5	339.6	**392.6**
Total return[1] (pence)	20.5	41.5	20.8	38.9	12.9	(22.7)	(43.8)	44.2	34.4	64.7	**53.1**
Earnings[1] (pence)											
Investment trust	4.96	5.46	5.62	5.57	5.45	4.07	4.10	4.51	5.06	5.73	**7.07**
Trustee and related services	1.64	1.74	1.72	2.13	2.40	2.98	2.23	2.40	3.51	4.32	**5.11**
	6.60	7.20	7.34	7.70	7.85	7.05	6.33	6.91	8.57	10.05	**12.18**
Dividends[1] (pence)	5.00	5.70	6.20	6.60	6.80	6.90	6.90	6.90	7.55	9.05	**10.50**
NAV[1] (pence) (after proposed final dividend)	164.4	199.8	214.2	246.5	252.6	222.9	170.5	201.9	228.1	284.0	**328.2**
Share price[1] (pence)	186.2	222.0	214.3	233.6	239.6	233.5	192.5	221.75	232.5	288.75	**349.0**
Premium/(discount) (%)	13.3	11.1	–	(5.2)	(5.1)	4.7	12.9	9.8	1.9	1.7	**6.3**
Market capitalisation (£m)	215.5	258.5	249.9	272.6	279.4	272.7	225.3	260.0	273.2	339.7	**410.8**
Cost of running investment trust (% of average portfolio value)	0.43	0.39	0.42	0.46	0.47	0.53	0.56	0.55	0.52	0.51	**0.49**

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

The information in respect of 2003-2006, is in accordance with International Financial Reporting Standards. The information in respect of 1996-2002, is in accordance with UK Generally Accepted Accounting Principles.

Highlights

	31 December 2006 pence	31 December 2005 pence	Change %
Share price	**349.00**	288.75	20.9
NAV per share after proposed final dividend	**328.17**	283.98	15.6
Earning per share			
– Investment trust	**7.07**	5.73	23.4
– Trustee services	**5.11**	4.32	18.3
Group earnings per share	**12.18**	10.05	21.2
Dividends per share	**10.50**	9.05	16.0

Performance

	2006 %	2005 %
Share price	**20.9**	24.2
NAV total return	**19.3**	28.5
FTSE All-Share Index total return	**16.8**	22.0

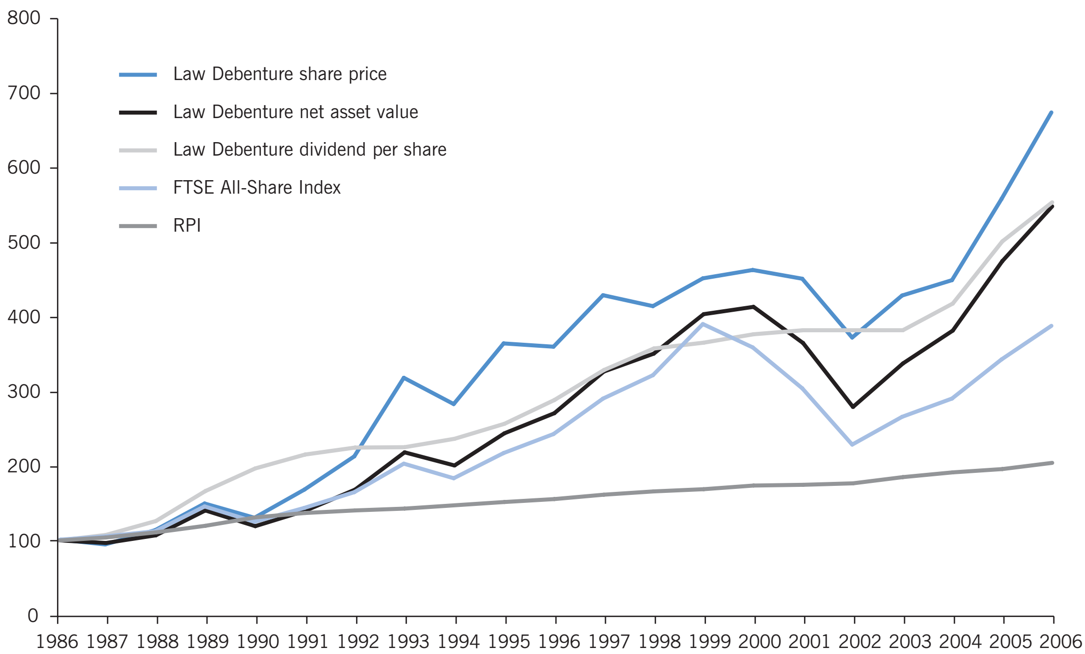
	5 years %	10 years %
NAV total return *	73.0	173.8
FTSE All-Share Index total return *	50.2	114.0
Share price total return *	75.3	152.7
Change in retail price index *	16.0	30.2
Annual earnings growth	11.6	6.3
Annual dividend growth	8.8	7.7
Annual RPI change	3.0	2.7

* 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 (62)
Chairman
Chairman of The Independent Investment Trust plc, Foreign & Colonial Eurotrust PLC and Scottish Investment Trust plc. Former joint senior partner of Baillie Gifford & Co, investment managers, and former chairman of IMRO, of the Association of Investment Trust Companies and of the Fund Managers' Association. Joined the board in 1998, becoming chairman in 2000. Chairman of the remuneration and nomination committees and a member of the audit committee.

Caroline Banszky (53)
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 (63)
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 (58)
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 (58)
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 (45)
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 2006, our net asset value total return was 19.3% compared to a total return of 16.8% for the FTSE All-Share Index.

Our gross revenue increased over the year by 14.5% from £35.7 million to £40.8 million. Profit attributable to shareholders was £14.3 million, an increase of 21.2% over the previous year, as a result of a 23.4% improvement in the investment trust and an 18.2% improvement in trustee and related services. Improved company dividends and reduced net interest payable have increased the return from the investment trust and all our trustee related services businesses have performed well.

Earnings and dividends

Earnings per share for the year to 31 December 2006 were 12.18p, an increase of 21.2% from the previous year. The board is recommending a final dividend of 7.10p per ordinary share (2005: 5.95p), which, together with the interim dividend of 3.40p (2005: 3.10p) gives a total dividend of 10.50p (2005: 9.05), an increase of 16.0%. The final dividend will be paid, subject to shareholder approval, on 25 April 2007 to holders on the register at the record date of 16 March 2007. 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 17.5%, ahead of the FTSE All-Share Index.

We continue to select investments on the basis of what appears most attractive in the conditions of the time. We will not pay unrealistically high prices but hope to be able to buy growth shares on reasonable terms. We do not feel obliged to hold shares in any particular type of company or industry or market, but seek to find the best value. We aim to achieve a better return than the Index by good stock picking. We believe that, in the long term, returns on equities will exceed the cost of our long term borrowing. Our policy is to assume only a level of gearing which balances risk with the objective of increasing the return to shareholders. However, during the year we found it increasingly difficult to find value in global equities and the gearing was reduced. We ended the year in a net cash position.

Growth in the global economy has been reasonably strong, with favourable implications for company profits and stock markets. Higher energy and commodity prices did not create the inflationary pressures that might have been expected and company profits continued to improve.

In the UK, many companies have been benefiting from economic growth and dividend growth has been strong.

Trustee and related services

Our trustee and related services business increased revenue by 13.1% and underlying profit before tax by 20.3%. Most areas of the business have seen continued growth.

The commercial trust division had a busy year and a number of high profile appointments. Our pension trustee business has seen growth from new and existing relationships and expects the Pensions Act 2004 to continue to provide further opportunities. Corporate services continue to grow significantly and we opened an office in Wilmington, Delaware 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 and Hong Kong. The New York corporate trust business has achieved significant growth and continues to develop its business in niche markets. Hong Kong has had a busy year as a result of the high level of acquisition activity in China. Channel Islands developed its position as an independent provider of trustee and corporate services.

The deficit of our defined benefit pension scheme has reduced during the year as a result of: a special contribution of £1,615,000; a one-off contribution to profit of £403,000 as a result of a change made to the benefits last year; and £3,119,000 as a result of changes to discount rates and investment returns.

Staff

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

Douglas McDougall

Background

2006 was the fourth consecutive year of good returns for global equities. GDP growth surpassed commentators' best expectations, in spite of high oil and raw material prices. Inflation did pick up but it appeared modest in the context of the increases in energy costs. However, it was enough to unnerve bond markets slightly, with the UK government bond yields rising from 4.5% to 4.8%.

The depreciation of the US dollar against all major currencies had the most striking effect on returns. It depreciated 12% against sterling undermining much of the return UK investors would have had from an unhedged position in dollar assets. The large US trade deficit was the cause of the dollar's fall, but the fall will not go far in addressing global trade imbalances unless it is accompanied by a slow down in US consumer spending and the signs on this remain mixed.

For equity investors the most encouraging feature of the year was the increase in operating margins by companies. This can be illustrated by corporate profits as a percentage of GDP being at a historically very high level in both the UK and the US. This has resulted in forecast corporate earnings growth being exceeded in the majority of cases. The strong profits growth has not yet resulted in a large pick up in capital spending. This has meant corporate cash generation has substantially improved. The cash generation being achieved is encouraging development capital funds to buy listed equities and take them into the private arena with the use of leverage. The UK market has traditionally been the most open for takeover activity and UK investors have benefited from it over the last year, but recently continental European companies have increasingly attracted interest. It is an important factor behind investment returns and one of the reasons for our increasing exposure to Europe.

Another positive effect of the substantial cash generation is that dividend growth has been better than expected. The very strong dividend growth that companies have achieved in the last few years is likely to slow along with their earnings but both are expected to progress in real terms. It is this growth in income that equities are providing which continue to make them attractive to investors when compared with other asset classes.

Asset allocation and performance

	Law Debenture asset allocation	
Market	**31 December 2006 %**	31 December 2005 %
UK	**73.4**	71.9
Europe (ex UK)	**13.4**	9.9
North America	**0.2**	6.3
Japan	**5.0**	5.2
Pacific (ex Japan)	**8.0**	6.7

	Total return performance	
Market	Law Debenture %	Relevant index* %
UK	19.7	16.8
Europe (ex UK)	26.6	20.1
North America	1.9	1.7
Japan	(7.0)	(7.4)
Pacific (ex Japan)	14.1	12.6

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

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

Source: BoNY.

We continue to invest mainly in the UK. The overseas portfolio is intended to provide exposure to areas of investment with attractive features which cannot be easily found in the UK.

Investment activity

During the year the portfolio gearing was paid down. Over the course of the year equity exposure was reduced from 112% to 95%. The reduction in equity exposure was the result of finding it increasingly difficult to find value in global equity markets. Companies are operating very satisfactorily but this is now being priced into valuations and risk is being increasingly ignored. Corporate bond yields remain relatively low which is providing an abundance of cheap financing. Equity is being replaced by debt through share buybacks and leveraged takeovers; while this is driving equity prices up it would seem prudent to reduce equity exposure until value re-emerges. During the year a net £44.9 million was raised from the UK portfolio and virtually the entire US portfolio was sold. The intention is to remain a net seller into share price strength but we will remain on the look out for reasonably priced companies globally that have distinct competitive advantages. A concern is that as interest rates continue to rise, the battle to subdue the pickup in inflation will make the operating climate for many companies less benign than it is at present. This will put pressure on margins and the valuations of weaker companies will suffer.

UK

The mid cap companies had another very strong year with the return from the FTSE 250 Index being 25.7%. An important reason for this strength was the level of corporate activity that occurred in this size of company. The move from public listing to private drove equity prices higher. The portfolio benefited from development capital funds buying PD Ports and John Laing. There were also takeovers inspired by industry consolidation with the holdings in the portfolio of BOC, BAA and Wellington Underwriting being examples. The holdings in mid cap stocks were reduced as valuations rose. The relatively large holding in the housebuilder Redrow was entirely sold. In the major companies the exposure to mining stocks was sold, as the strength in commodity prices is unlikely to be maintained.

New investments were made in selective stocks with good long term earnings prospects. A holding in Balfour Beatty will benefit from the ongoing government infrastructure spending and Meggitt has a strong order book because of the increasing level of Aerospace spending. There was also some investment in smaller companies with Dunelm, the household goods retailer, being an example.

Overseas markets

Investments are made in overseas markets in order to add good opportunities that cannot be found in the UK market. The US holdings were sold down during the year as valuations are demanding, while the Japanese stocks are still being held as we continue to believe that there are positive changes occurring in corporate Japan which will benefit investors. However, the evidence for this view was not forthcoming last year as Japan was the worst performing major market. The Far East markets were mixed with Hong Kong providing very good returns. The extraordinary growth of China continues to fuel opportunities and therefore the position will be maintained. We continue to make direct investments in continental Europe which are performing well. We believe that there is value to be found and further holdings are being added.

Outlook

Since the year end UK interest rates have been increased as the economy is surprising forecasters by its strength with inflation overshooting its target. The rise in rates could continue as there is growing upward pressure on wages. Therefore the economic climate which has been conducive to corporate profit growth may become more challenging. The emphasis will be on stocks that can deal with more difficult conditions. The equity exposure of the fund may be reduced further to 90% if attractive investment opportunities are not found. This position will be maintained until better value re-emerges.

James Henderson
Henderson Global Investors Limited

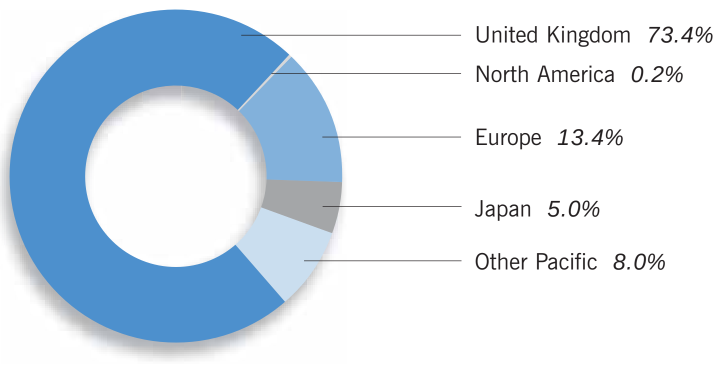
		2006		2005	
Rank	**Company**	**Value £000**	**% of portfolio**	% of portfolio	Rank
1	Henderson Asia Pacific Capital Growth (Pacific)*	**29,162**	**7.99**	6.74	1
2	BP	**14,175**	**3.88**	4.23	2
3	Henderson Japan Capital Growth (Japan)*	**11,856**	**3.25**	3.41	3
4	HSBC	**11,166**	**3.06**	2.70	6
5	Royal Dutch Shell	**10,281**	**2.82**	2.80	5
6	GlaxoSmithKline	**9,797**	**2.68**	2.81	4
7	Royal Bank of Scotland	**9,168**	**2.51**	1.89	7
8	Alfred McAlpine	**7,893**	**2.16**	1.67	10
9	Barclays	**7,118**	**1.95**	1.60	12
10	Vodafone	**6,798**	**1.86**	1.81	8
11	British American Tobacco	**6,645**	**1.82**	1.67	9
12	Senior	**6,120**	**1.68**	0.84	24
13	HBOS	**5,660**	**1.55**	1.61	11
14	Tesco	**4,854**	**1.33**	1.04	18
15	Diageo	**4,812**	**1.32**	1.06	16
16	Lloyds TSB	**4,568**	**1.25**	1.15	14
17	Fresenius (Ger)	**4,446**	**1.22**	0.84	25
18	ACS Actividades Construccion (Spain)	**4,310**	**1.18**	0.74	36
19	Rolls Royce	**4,247**	**1.16**	1.12	15
20	BT	**3,920**	**1.07**	0.76	31
			45.74		

* Open ended investment companies.

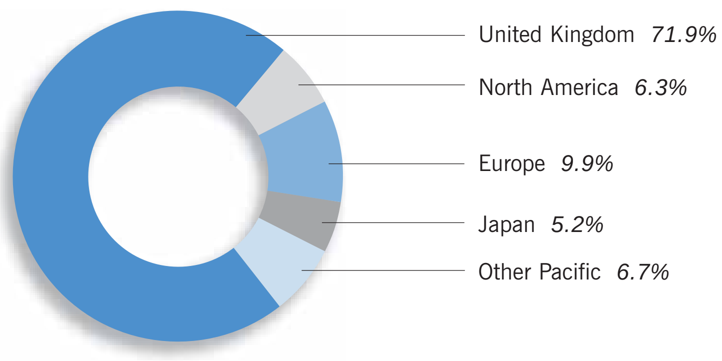
The top 20 holdings by value at 31 December 2005 accounted for 42% of the investment portfolio.

	Valuation 31 December 2005 £000	Purchases £000	Sales proceeds £000	Appreciation/ (depreciation) £000	**Valuation 31 December 2006 £000**
United Kingdom	273,882	26,568	(71,623)	39,298	**268,125**
North America	23,866	623	(21,643)	(1,938)	**908**
Europe	37,709	7,708	(5,701)	8,993	**48,709**
Japan	19,633	–	–	(1,423)	**18,210**
Other Pacific	25,657	–	–	3,505	**29,162**
	380,747	34,899	(98,967)	48,435	**365,114**

Geographical distribution of portfolio 2006



Geographical distribution of portfolio 2005



Classification of investments

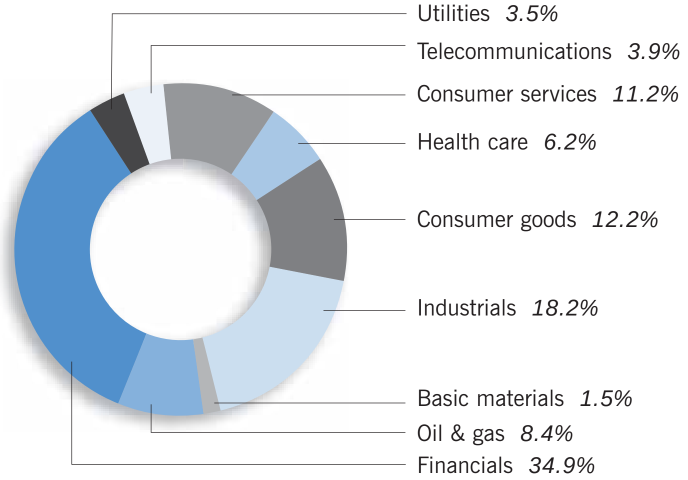
based on market values at 31 December 2006

	United Kingdom %	North America %	Europe %	Japan %	Other Pacific %
Oil & gas					
Oil & gas producers	7.65	–	0.72	–	–
Oil equipment & services	–	–	–	–	–
	7.65	–	0.72	–	–
Basic materials					
Chemicals	1.11	–	–	0.37	–
Forestry & paper	–	–	–	–	–
Mining	–	–	–	–	–
	1.11	–	–	0.37	–
Industrials					
Construction & materials	0.74	–	1.76	–	–
Aerospace & defence	2.48	–	–	–	–
General industrials	1.21	–	–	–	–
Electronic & electrical equipment	1.81	–	–	–	–
Industrial engineering	2.89	–	–	–	–
Industrial transportation	0.72	–	0.88	–	–
Support services	4.30	–	1.44	–	–
	14.15	–	4.08	–	–
Consumers goods					
Automobiles & parts	0.57	–	–	0.67	–
Beverages	2.08	–	0.16	–	–
Food producers	3.22	–	0.67	–	–
Household goods	0.96	–	0.85	–	–
Leisure goods	0.31	–	–	–	–
Tobacco	2.73	–	–	–	–
	9.87	–	1.68	0.67	–
Health care					
Health care equipment & services	0.69	–	1.22	–	–
Pharmaceuticals & biotechnology	3.26	–	0.82	0.21	–
	3.95	–	2.04	0.21	–
Consumer services					
Food & drug retailers	1.33	–	–	–	–
General retailers	1.60	–	0.69	0.20	–
Media	3.76	–	–	0.28	–
Travel & leisure	3.06	0.25	–	–	–
	9.75	0.25	0.69	0.48	–
Telecommunications					
Fixed line telecommunications	1.87	–	–	–	–
Mobile telecommunications	2.03	–	–	–	–
	3.90	–	–	–	–
Utilities					
Electricity	1.35	–	–	–	–
Gas water & multiutilities	2.16	–	–	–	–
	3.51	–	–	–	–
Financials					
Banks	10.93	–	2.61	–	–
Nonlife insurance	2.17	–	–	–	–
Life insurance/assurance	4.17	–	–	–	–
Real estate	1.65	–	0.97	–	–
General financial	0.61	–	0.57	–	–
Equity investment instruments	–	–	–	3.25	7.99
	19.53	–	4.15	3.25	7.99
Technology					
Software & computer services	–	–	–	–	–
Technology hardware & equipment	–	–	–	–	–
	–	–	–	–	–
Total 2006	**73.42**	**0.25**	**13.36**	**4.98**	**7.99**
Total 2005	71.93	6.26	9.91	5.16	6.74

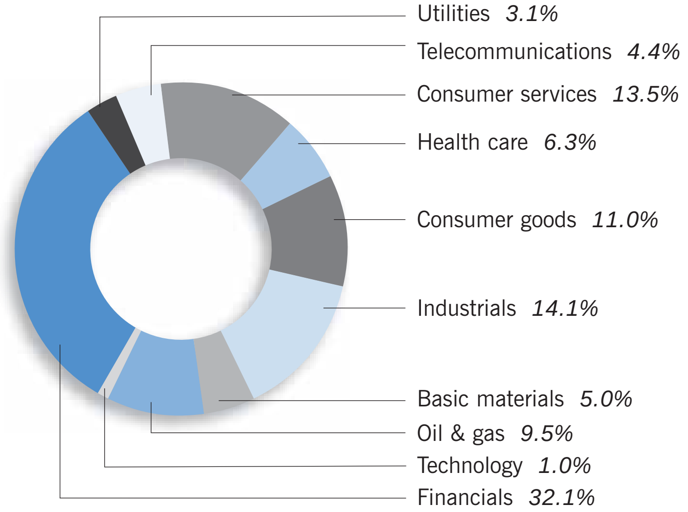
The above table excludes bank balances and short term deposits.

Total 2006 £000	2006 %	Total 2005 £000	2005 %
30,551	**8.37**	34,661	9.10
–	**–**	1,611	0.42
30,551	**8.37**	36,272	9.52
5,371	**1.48**	7,512	1.97
–	**–**	1,980	0.52
–	**–**	9,694	2.55
5,371	**1.48**	19,186	5.04
9,138	**2.50**	9,549	2.51
9,082	**2.48**	7,401	1.94
4,436	**1.21**	5,753	1.51
6,625	**1.81**	3,327	0.87
10,511	**2.89**	5,314	1.40
5,832	**1.60**	7,954	2.08
21,012	**5.74**	14,270	3.75
66,636	**18.23**	53,568	14.06
4,537	**1.24**	3,553	0.94
8,213	**2.24**	8,207	2.16
14,159	**3.89**	9,733	2.56
6,601	**1.81**	11,488	3.02
1,140	**0.31**	–	–
9,968	**2.73**	8,915	2.34
44,618	**12.22**	41,896	11.02
6,951	**1.91**	7,599	1.99
15,708	**4.29**	16,531	4.35
22,659	**6.20**	24,130	6.34
4,854	**1.33**	3,978	1.04
9,040	**2.49**	13,702	3.59
14,731	**4.04**	15,408	4.05
12,066	**3.31**	18,143	4.77
40,691	**11.17**	51,231	13.45
6,861	**1.87**	8,570	2.26
7,417	**2.03**	8,283	2.18
14,278	**3.90**	16,853	4.44
4,948	**1.35**	4,642	1.21
7,862	**2.16**	7,103	1.86
12,810	**3.51**	11,745	3.07
49,394	**13.54**	48,295	12.67
7,930	**2.17**	7,545	1.99
15,232	**4.17**	12,620	3.32
9,605	**2.62**	11,206	2.95
4,321	**1.18**	3,830	1.00
41,018	**11.24**	38,631	10.15
127,500	**34.92**	122,127	32.08
–	**–**	1,684	0.44
–	**–**	2,055	0.54
–	**–**	3,739	0.98
365,114	**100.00**		
		380,747	100.00

Portfolio by sector 2006



Portfolio by sector 2005



as at 31 December 2006

The number of investments has decreased from 148 at 31 December 2005 to 117 at 31 December 2006.
Those shown in italics are new holdings in the six months since 30 June 2006.

	£000	%
Oil & gas		
Oil & gas producers		
BP	14,175	3.88
Royal Dutch Shell	10,281	2.82
BG	3,463	0.95
Total (Fra)	2,632	0.72
	30,551	8.37
Basic materials		
Chemicals		
ICI	3,164	0.87
Asahi Kasei (Japan)	1,336	0.37
Croda	*871*	*0.24*
	5,371	1.48
Industrials		
Construction & materials		
ACS Actividades Construccion (Spain)	4,310	1.18
CRH (Ireland)	2,125	0.58
Balfour Beatty	1,993	0.55
Marshalls	710	0.19
	9,138	2.50
Aerospace & defence		
Rolls Royce	4,247	1.16
Smiths	2,975	0.81
Meggitt	1,860	0.51
	9,082	2.48
General industrials		
Smith (DS)	2,349	0.64
Tomkins	2,087	0.57
	4,436	1.21
Electronic & electrical equipment		
TT Electronics	3,370	0.92
Morgan Crucible	2,933	0.80
Abacus	322	0.09
	6,625	1.81
Industrial engineering		
Senior	6,120	1.68
Renold	2,255	0.62
Weir Group	2,136	0.59
	10,511	2.89
Industrial transportation		
Kuehne & Nagel (Switz)	1,853	0.51
Wincanton	1,607	0.44
AP Moller–Maersk (Den)	1,346	0.37
Autologic	1,026	0.28
	5,832	1.60
Support services		
Alfred McAlpine	7,893	2.16
Interserve	3,609	0.99
Deutsche Post (Ger)	2,480	0.68
Experian	*1,800*	*0.49*
Johnson Service	1,747	0.48
Sodexho Alliance (Fra)	1,596	0.44
Adecco (Switz)	*1,181*	*0.32*
Biffa	*706*	*0.18*
	21,012	5.74

	£000	%
Consumer goods		
Automobiles & parts		
Toyota Motor (Japan)	2,461	0.67
GKN	2,076	0.57
	4,537	1.24
Beverages		
Diageo	4,812	1.32
Scottish & Newcastle	2,790	0.76
Pernod–Ricard (Fra)	611	0.16
	8,213	2.24
Food producers		
Uniq	3,234	0.89
Unilever	3,209	0.88
Nestlé (Switz)	2,437	0.67
Cadbury Schweppes	1,993	0.55
Premier Foods	1,929	0.53
Dairy Crest	1,357	0.37
	14,159	3.89
Household goods		
Reckitt Benckiser	3,501	0.96
Puma (Ger)	*1,991*	*0.55*
Essilor (Fra)	1,109	0.30
	6,601	1.81
Leisure goods		
Alba	1,140	0.31
	1,140	0.31
Tobacco		
British American Tobacco	6,645	1.82
Gallaher	3,323	0.91
	9,968	2.73
Health care		
Health care equipment & services		
Fresenius (Ger)	4,446	1.22
Smith & Nephew	2,505	0.69
	6,951	1.91
Pharmaceuticals & biotechnology		
GlaxoSmithKline	9,797	2.68
Shire	2,118	0.58
Novartis (Switz)	2,038	0.56
Sanofi-Aventis (Fra)	943	0.26
Astellas Pharma (Japan)	812	0.21
	15,708	4.29
Consumer services		
Food & drug retailers		
Tesco	4,854	1.33
	4,854	1.33
General retailers		
Findel	3,018	0.83
Inditex (Spain)	2,508	0.69
Dunelm	*1,554*	*0.43*
Home Retail	*1,229*	*0.34*
Lawson (Japan)	731	0.20
	9,040	2.49

	£000	%
Media		
EMI	3,303	0.90
Reuters	2,891	0.79
Reed Elsevier	2,466	0.68
Pearson	1,926	0.53
Johnston Press	1,568	0.43
BSkyB	1,563	0.43
Toppan Printing (Japan)	1,014	0.28
	14,731	4.04
Travel & leisure		
Greene King	3,752	1.03
Go–Ahead	2,373	0.65
Intercontinental Hotels	1,593	0.44
Carnival	1,394	0.38
Avis Europe	1,143	0.31
Carnival (USA)	908	0.25
Compass	870	0.24
Mytravel	33	0.01
Mytravel Warrants	–	–
	12,066	3.31
Telecommunications		
Fixed line telecommunications		
BT	3,920	1.07
Cable & Wireless	1,572	0.43
Colt Telecom 7.625% 15 Dec 2009	1,369	0.37
	6,861	1.87
Mobile telecommunications		
Vodafone	6,798	1.86
Inmarsat	619	0.17
	7,417	2.03
Utilities		
Electricity		
Scottish & Southern Energy	3,108	0.85
Scottish Power	1,840	0.50
	4,948	1.35
Gas, water & multiutilities		
United Utilities	3,215	0.88
National Grid	2,393	0.66
Severn Trent	2,254	0.62
	7,862	2.16
Financials		
Banks		
HSBC	11,166	3.06
Royal Bank of Scotland	9,168	2.51
Barclays	7,118	1.95
HBOS	5,660	1.55
Lloyds TSB	4,568	1.25
BNP Paribas (Fra)	2,940	0.81
Fortis (Neth)	2,395	0.66
Deutsche Postbank (Ger)	2,372	0.65
Standard Chartered	2,235	0.61
ABN Amro (Neth)	1,772	0.49
	49,394	13.54
Nonlife insurance		
Hiscox	3,716	1.02
Amlin	2,602	0.71
Wellington Underwriting	1,612	0.44
	7,930	2.17

	£000	%
Life insurance/assurance		
Aviva	3,576	0.98
Friends Provident	2,832	0.78
Legal & General	2,830	0.78
Old Mutual	2,788	0.76
Prudential	2,751	0.75
Standard Life	*455*	*0.12*
	15,232	4.17
Real estate		
Unibail (Fra)	3,554	0.97
Land Securities	2,903	0.79
Hammerson	1,577	0.43
Slough Estates	1,571	0.43
	9,605	2.62
General financial		
Provident Financial	2,104	0.58
Deutsche Börse (Ger)	2,027	0.56
	4,131	1.14
Equity investment instruments		
Henderson Asia Pacific Capital Growth (Pacific)	29,162	7.99
Henderson Japan Capital Growth (Japan)	11,856	3.25
	41,018	11.24

Results

Trustee and related services revenue, excluding rechargeable expenses, rose by 13.1%, benefiting from growth in fees in most areas of the business. Profit before tax was £7,947,000 compared with £6,270,000 for the previous year. Changes made to pension benefits in 2005 gave rise to a one-off contribution to profit of £403,000. The underlying increase to profit before tax over the previous year is therefore 20.3%. The much improved performance of trustee and related services contributed 5.11p to earnings per share, an increase of 18.3%. In the second half of the year we expanded our team in London to provide structured finance administration services. Our New York operations continued to grow significantly and the decision was taken during the year to increase our presence in the US by opening an office in Delaware to provide corporate services. Since the year end, we acquired Delaware Corporate Services Inc for an expected total consideration of US$1.6 million, to increase the range of corporate services we can provide.

Commercial trusts

Commercial trusts remain the largest contributor to income in our trustee and related services business. Capital markets' transactions continue to provide the bulk of our business. Although the market for commercial trust services was extremely competitive, 2006 was a busy year for Law Debenture.

Law Debenture was appointed trustee on a number of high profile securitisations. Arsenal Football Club appointed us as bond and security trustee to its securitisation of future ticket sales to finance the building of its new stadium in North London. Law Debenture has also been selected as bond and security trustee on two PFI bond issues for Sheffield University and a hospital project for the Mid Essex NHS Hospital Trust.

Law Debenture is known for its willingness to be involved in the more bespoke complex transactions. For instance, we hold special voting shares in both Cape plc and its specially formed subsidiary, Cape Claims Services Limited, under a court approved scheme of arrangement to assist in protecting the rights of asbestos related claimants. We were also involved as trustee on a new product, Exchange Traded Commodities which are listed on The London Stock Exchange. The debt securities issued can be bought and sold like a share and track the price of an underlying commodity.

Inevitably, we are also involved in a number of defaults, or potential defaults, and restructurings both in the UK and overseas. As predicted, there was considerable activity throughout the year in connection with bonds issued by a finance subsidiary of the Polish industrial conglomerate, Elektrim S.A., for which Law Debenture is trustee, and this continues. In addition, we have trustee roles in the Eurotunnel Group, which went into a French sauvegarde process in August, and we have necessarily spent considerable time on these roles. In all cases working closely with our legal advisers and where appropriate financial advisers, we endeavour to protect the interests of our beneficiaries (the bondholders). Although the trustee is legally entitled to recover its costs, we are not always able to do so.

Treasury management

Treasury management provides trust cash management and administration services in relation to various commercial trust, employee benefit schemes and retention plans, project financing and escrow arrangements. Treasury staff specialise in the management of the cash movements or the administrative function relating to a particular trust, escrow or administration role. This complements the more traditional trustee function where cash is simply held in a bank account and then paid out once the required conditions have been met. Equally, the department can just track external transaction cash flows ensuring that the trustee's obligations are met.

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

Pensions

Demand for our services as an independent pension trustee has continued to grow. This was due both to growth in income from existing trustee appointments and to several new appointments throughout the year. These included our appointments as a trustee director of The Royal Mail Pension Plan, the Marks & Spencer Pension Scheme and the Rio Tinto Pension Fund.

There are many advantages to having an independent pension trustee. We are seen as contributing to good governance, bringing a professional level of knowledge and understanding and helping to ensure that trustee boards are independent. During the past year, our presence has been particularly helpful in several high profile company merger and acquisition situations where the interests of the pension scheme have had to be represented. In each case, we have been able to work with advisers and co-trustees to ensure that the best possible outcome has been secured.

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, 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 2006, were appointments to securitisations by AGCO Limited, JP Morgan and Oakwood Homeloans. We were also appointed to manage SPVs for capital asset purchases, real property holding structures and PFI projects. We added same day incorporations as a new service offered to clients. The corporate services department operates independently of the commercial trust business and provides services to transactions whether or not Law Debenture has a trustee role.

Overseas

United States

Law Debenture Trust Company of New York achieved significant growth. The source of our revenue was further diversified during 2006; with one third generated by our role as successor trustee in bankruptcy (representing investors in Mirant North America, Northwestern Corporation and Calpine Corporation), one third from new trustee appointments and one third from fees generated by our paying agent and escrow function.

During the year examples of trustee appointments were, for US issuers: Principal Life Income Funding Trust, Station Casinos; and for international issuers: Deutsche Bank, Electricidad Argentina, HSBC Bank, Lafarge, Multicanal (Argentina) and ORIX Corporation (Tokyo).

Law Debenture Corporate Services Inc had strong growth in the year, benefiting from our efficient and responsive service. In order to increase market share and add new products and services in the US, a new office was opened in Wilmington, Delaware during 2006. We expect to grow significantly in that marketplace.

Hong Kong

2006 was a busy year for Law Debenture in Hong Kong, which continues to experience growth. We have benefited from pre-IPO activities where companies chose to issue convertible bonds before listing. The buoyant market and high volume of acquisition activity in China resulted in further growth in our escrow business. Our expertise in share trusts and voting trusts can assist clients involved in foreign investment into China.

Channel Islands

Law Debenture Channel Islands expanded its portfolio of clients requiring independent trustee and corporate services. Notable appointments include that of trustee of an income access structure for a company listed on the London Stock Exchange.

Cayman Islands

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

Caroline Banszky

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Stockbrokers
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A member of
aic
The Association of
Investment Companies

The directors present their report and the audited financial statements of the group for the year ended 31 December 2006. 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 2005, the latest year for which financial statements have been submitted. Such approval for the year ended 2005 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 266 of the Companies Act 1985 and operates as such. The directors consider that the group operates as a going concern.

In August 2002, all of the Corporation's ordinary shares of 25p were split into five ordinary shares of 5p. Wherever share 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. Trustee and related services provides independent professional trustee, fiduciary and related services to the wholesale markets and to occupational pension schemes. The services are provided by wholly owned subsidiaries of the Corporation with offices in London, 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 separately takes into account the performance of the portfolio and the profitability of the trustee and related 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.

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 19 to the accounts.

The principal risks of the trustee and related services business arise during the course of defaults, potential defaults and restructurings in capital markets transactions where we have been appointed to provide trustee or related 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 2006 was £14,264,000. The directors recommend a final dividend of 7.10p per share, which together with the interim dividend of 3.40p paid in September 2006, will produce a total of 10.50p (2005: 9.05p). The final dividend will be paid on 25 April 2007 to holders on the register on the record date of 16 March 2007. After deduction of the interim and proposed final dividends of £12,297,000 (2005: £10,602,000), consolidated revenue reserves increased by £1,967,000 (2005: increase of £1,171,000).

Directors

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

In accordance with the articles of association, Mr McDougall is required to retire and offer himself for election, it being three years since his last election. The board supports his nomination. As chairman he has led the board with skill and

continued

considerable success. He is highly regarded in the investment trust sector and continues to contribute fully to the board especially in overseeing investment strategy.

Mr Williams became a non-executive director on 1 January 2005. Since he has been a director for more than nine years, he stands for annual re-election. The board supports his re-election. Mr Williams, who has extensive experience of the trustee businesses, previously provided excellent service as an executive director, and has continued to provide valuable advice to the board as a non-executive.

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	**2006**	2005
C.J. Banszky	**31,197**	25,999
A.C. Cates	**35,367**	35,282
J.A. Kay	**5,000**	5,000
D.C.P. McDougall	**410,000**	410,000
R.J. Williams	**91,304**	87,280

No director has a beneficial interest in the shares of any subsidiary company. There has been no change in directors' interests since 31 December 2006, save in the case of Mrs Banszky, who has acquired a further 550 shares.

Regulatory compliance

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

Regulatory compliance absorbs ever greater resource. The Corporation has recently had to contend with a plethora of legislative changes including two new European Directives (Market Abuse and Transparency), revisions to the Combined Code and the Turnbull guidance on internal controls, the UKLA's review of investment company listing rules, and a new Companies Act. These are unwelcome additional burdens.

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 in to 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.

Substantial shareholdings

As at 20 February 2007, there were no shareholders that had notified the Corporation of an interest in 3% or more of the issued share capital.

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. It is not currently the Corporation's intention to take advantage of Companies Act 2006 provisions allowing communications with shareholders exclusively by electronic means. The board believes that shareholders value receiving annual and interim reports in their published forms, and those that wish to dispense with this in favour of receiving an electronic communication may already 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 29. 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 2006 were:

Date of grant	Number of option holders	Shares under option	Exercise price
4 July 2002	3	4,700	225.10p
2 July 2003	34	223,548	172.40p
17 June 2004	15	34,969	203.82p
10 June 2005	12	17,837	240.73p
9 August 2006	15	23,721	283.70p

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 trustee 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 2006 were as follows:

Date of grant	Number of option holders	Shares under option	Exercise price
4 December 1998	8	168,750	212.1p
2 August 2002	1	31,205	211.5p
28 March 2003	20	247,994	174.2p
2 March 2004	22	163,298	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 Hendersons 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 £933,000 (2005: £814,000) 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 346,187 shares in the Corporation at 31 December 2006.

Charitable donations

During the year the Corporation made charitable donations of £1,019 (2005: £2,257).

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 36 to 59, 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 is required to prepare its financial statements under International Financial Reporting Standards ('IFRS').

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 reports may differ from legislations 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 2007

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. An updated version of the Combined Code was published in 2006 and although the new requirements apply only to reporting periods after 1 November 2006, the Corporation has treated them as if they had immediate effect. 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 trustee business, attended by business heads with all directors in attendance.

	Board	Remuneration	Audit	Nominations
Number of meetings in the year	11*	6	3	1
Meetings attended by:				
C.J. Banszky	10	–	–	–
A.C. Cates	10	5	3	1
J.A. Kay	6	4	2	1
D.C.P. McDougall	10	6	3	1
R.J. Williams	10	–	–	–

* Three of these were 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 discussion 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.

continued

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, three of its four non-executive directors are independent. In judging independence, the board takes into account whether or not a director is independent of management and any business or other relationship that could affect or interfere with the exercise of objective judgement by the director, or his/her ability to act in the best interests of the Corporation and its subsidiaries.

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

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

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

Professor Kay was independent at appointment in September 2004 and remains so, 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 recent period of 11 years 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 32.

Board committees

The board has established a nomination 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)**.

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 revised 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 23.

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;
- Development of total remuneration packages 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 22 of the annual report and accounts. The independent auditor's report appears on page 34. 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 45. 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 meetings with the senior management and compliance staff of Henderson Global Investors Limited;
- Monitoring by the board of the investment management process, including the establishment and maintenance of investment guidelines, receiving a report from the investment manager at each board meeting, the review of all transactions with the investment manager and regular reconciliations of the records of the group with those of the global custodian and investment data services provider; and
- Receipt of frequent and detailed reports about the trustee 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 2006 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 2007 are set out at pages 61 to 63.

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. Commencing 2007, this information will be published immediately after the AGM on the Corporation's website. Further, those appointing a proxy will have the opportunity to indicate 'vote withheld' if they wish neither to support nor oppose a resolution. All directors attend the AGM. 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 2006 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 2006. 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 25) are independent, non-executive directors. Each of these served throughout the year to 31 December 2006.

The committee met six times during the year. The managing director attended five 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 advisors 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 page 34.

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 trustee and related businesses; discretionary bonus based upon trustee and related 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 trustee 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, the cost of this being included within the pension contributions made on her behalf by the group.

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 2007 in respect of performance of the trustee and related businesses in 2006. The amount of the payment is not guaranteed from year to year and is calculated by reference to a number of factors relating to the trustee and related businesses, including profitability and the growth in profits. The bonus is paid as a percentage of basic salary (normally expected to be between 5 and 15%), and all qualifying employees receive a bonus calculated at the same percentage. In 2007, the general bonus scheme payment will be 12.5% 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 2007. 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. 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 2007 to Mrs Banszky in respect of 2006 will be £130,000 (2005: £120,000). Up to the allowable limit, her bonus in respect of 2006 and payable in 2007, will be eligible to be placed in the Corporation's Share Incentive Plan.

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 the award to be made under the Deferred Share Bonus Plan, see below. It is expected that the award made under the Deferred Share Bonus Plan will be at least one-third of the total bonus receivable by the participant.

The 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 an award 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. Shares held by the trustee pending release to relevant executives carry no rights to dividends, voting entitlement or otherwise. The committee made awards of deferred bonus shares to the executive director (details of which are at paragraph 14) and 24 key members of the executive on 8 March 2006. Subject to eligibility, the shares will be released to award holders on 1 March 2009.

The remuneration committee has agreed an award of shares to the value of £65,000 under the plan to Mrs Banszky in respect of 2006, which will be purchased in March 2007 and will be released in March 2010.

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 Banszky did not participate in the 2006 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 before the executive director is entitled to exercise her options are as follows:

- *Options granted in 2002*
  These are exercisable from 2 August 2007, but only if the profits of the trustee and related services of the Corporation and its subsidiaries grow at an annual compound rate of 4% plus inflation over the five years ending 31 December 2006. The 'profits of the trustee and related services' mean the amount shown as such in the notes to the Corporation's consolidated accounts. If this condition is not met in the year ending 31 December 2006, it will be successively re-tested at the end of the next two years as necessary, applying the compound rate to the extended period. If the condition is still not met following re-testing, the options lapse.
- *Options granted in 2003*
  These are exercisable from 28 March 2008, but only if the performance conditions are met (these are as above under the heading 'Options granted in 2002' except that the initial testing period is to 31 December 2007).
- *Options granted in 2004*
  These are exercisable from 2 March 2007 only if the performance conditions are met (these are as above under the heading 'Options granted in 2002', except that the initial testing period is to 31 December 2006, the performance criteria must be met over three years, and there will be no re-testing).

The performance conditions applicable to options granted in 2002 and 2004 have been met and these options will become exercisable.

6. Pensions provision

Mrs Banszky 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. The rules relating to the earnings cap (£105,600 per annum up to 31 March 2006) mean that Law Debenture has to restrict the pension benefit payable to the managing director. Pursuant to her service contract and as compensation for the effect of this restriction, the managing director is paid a cash non-pensionable amount equal to 20% of the difference between (i) her base salary and (ii) the Inland Revenue permitted maximum for the time being whilst a member of the pension scheme. 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. Banszky	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.

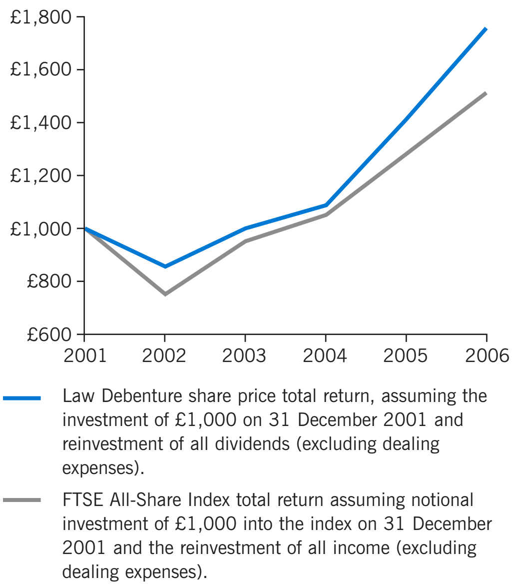
8. Remuneration of non-executive directors

The non-executive directors were paid fees for their services in 2006, 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 last amended in December 2003 with effect from 1 January 2004, and are paid as a flat rate director's fee (£20,000, or £25,000 for the senior non-executive director) with variable, additional fees being paid for each sub-committee or board on which a director serves as chairman or a member. All directors are expected to attend all meetings of the board and of any sub-committee of which they are a member, barring unforeseen circumstances. The attendance record of the non-executive directors at meetings of the Corporation's board and committees is set out at page 23 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



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 2006 (audited)

	Total salary/fees £	Total bonus £	Benefits other than in cash £	**Total receivable for 2006 £**	Total receivable for 2005 £
C.J. Banszky	317,670	130,000	1,353	**449,023**	399,129
A.C. Cates	50,000	–	–	**50,000**	45,000
D.C.P. McDougall	60,000	–	–	**60,000**	55,000
R.J. Williams	30,000	–	–	**30,000**	27,702
J.A. Kay	30,000	–	–	**30,000**	25,000

Notes

1. Total salary/fees for Mrs Banszky comprises basic salary plus non-pensionable cash allowances of £57,670 as set out in paragraphs 1 and 6.
2. 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 2006 £ pa	**Accumulated total accrued pension at 31 December 2006 £ pa**	Transfer value as at 31 December 2005 £000	**Transfer value as at 31 December 2006 £000**	Increase in transfer value £000
C.J. Banszky	**440**	**7,333**	94	**104**	10

1. The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 2006.
2. The increase in accrued pension during the year includes any increase for inflation.
3. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The increase in transfer value during the year includes director's contributions of £1,000.
4. Any Additional Voluntary Contributions ('AVCs') are excluded from the above table. Mrs Banszky made no AVCs during the year.
5. No previous directors are, or have been, in receipt of any excess retirement benefits.
6. Mrs Banszky ceased to be a member of the scheme from 31 March 2006.

12. Executive share option scheme (audited)

	Interest as at 31 December 2005	Granted in 2006	Exercised in 2006	**Interest as at 31 December 2006**	Exercise price	Earliest exercise	Latest exercise
C.J. Banszky							
2002	31,205	–	–	**31,205**	211.50p	02.08.07	01.08.10
2003	38,596	–	–	**38,596**	174.40p	28.03.08	27.08.11
2004	31,364	–	–	**31,364**	228.20p	02.03.07	01.03.12

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

The market price at the beginning of the year was 288.75p: the highest price during the year was 353.3p the lowest price was 280.3p.

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

	Interest as at 31 December 2005	Interest acquired in 2006	Exercise price	Market price at invitation date	Exercised in 2006	**Interest as at 31 December 2006**	Earliest exercise	Latest exercise
C.J. Banszky	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 2005	**Interest acquired in 2006**	Purchase price	**Interest at 31 December 2006**	Date shares to be released
C.J. Banszky					
2005	9,632	**–**	249.18p	**9,632**	13.05.08
2006	–	**18,806**	319.04p	**18,806**	01.03.09

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

Independent auditors' report

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 2006 which comprise the consolidated income statement, the consolidated statement of total recognised income and expense, the consolidated and company balance sheets, statements of change in shareholders' equity and 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, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRS') 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 2003 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 in 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 2006 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 as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006;
- 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 2007

for the year ended 31 December

	Notes	**Revenue 2006 £000**	**Capital 2006 £000**	**Total 2006 £000**	Revenue 2005 £000	Capital 2005 £000	Total 2005 £000
UK dividends		**9,805**	**–**	**9,805**	9,213	–	9,213
UK special dividends		**19**	**–**	**19**	135	–	135
Overseas dividends		**1,499**	**–**	**1,499**	1,442	–	1,442
Overseas special dividends		**11**	**–**	**11**	13	–	13
Interest from securities		**146**	**–**	**146**	138	–	138
		11,480	**–**	**11,480**	10,941	–	10,941
Bank deposit interest		**2,474**	**–**	**2,474**	1,068	–	1,068
Trustee and other related fees	2	**26,741**	**–**	**26,741**	23,556	–	23,556
Other income		**144**	**–**	**144**	107	–	107
Total revenue		**40,839**	**–**	**40,839**	35,672	–	35,672
Net gain on investments held at fair value through profit or loss	3	**–**	**48,128**	**48,128**	–	64,339	64,339
Gross income and capital gains		**40,839**	**48,128**	**88,967**	35,672	64,339	100,011
Cost of sales		**(8,465)**	**–**	**(8,465)**	(7,342)	–	(7,342)
Administrative expenses	4	**(13,523)**	**(179)**	**(13,702)**	(12,682)	(297)	(12,979)
Operating profit		**18,851**	**47,949**	**66,800**	15,648	64,042	79,690
Finance costs							
Interest payable	6	**(2,458)**	**–**	**(2,458)**	(2,471)	–	(2,471)
Profit before taxation	7	**16,393**	**47,949**	**64,342**	13,177	64,042	77,219
Taxation	8	**(2,129)**	**–**	**(2,129)**	(1,404)	–	(1,404)
Profit for year	7	**14,264**	**47,949**	**62,213**	11,773	64,042	75,815
Return per ordinary share (pence)	10	**12.18**	**40.95**	**53.13**	10.05	54.67	64.72
Diluted return per ordinary share (pence)	10	**12.14**	**40.82**	**52.96**	10.05	54.67	64.72

Statement of total recognised income and expense

for the year ended 31 December

	Revenue 2006 £000	**Capital 2006 £000**	**Total 2006 £000**	Revenue 2005 £000	Capital 2005 £000	Total 2005 £000
Profit for the financial year	**14,264**	**47,949**	**62,213**	11,773	64,042	75,815
Foreign exchange	**(303)**	**–**	**(303)**	250	–	250
Pension actuarial gains	**3,119**	**–**	**3,119**	20	–	20
Taxation on pension	**(936)**	**–**	**(936)**	(6)	–	(6)
Total recognised income and expense relating to the year	**16,144**	**47,949**	**64,093**	12,037	64,042	76,079

as at 31 December

	Notes	Group 2006 £000	Group 2005 £000	Corporation 2006 £000	Corporation 2005 £000
Assets					
Non current assets					
Property, plant and equipment	11	**694**	739	**–**	–
Intangible assets	12	**67**	113	**–**	–
Investments held at fair value through profit or loss	13	**365,114**	380,747	**364,924**	375,855
Investments in subsidiary undertakings		**–**	–	**8**	90
Other assets		**–**	5	**–**	5
Deferred tax assets	8	**705**	2,106	**–**	–
Total non current assets		**366,580**	383,710	**364,932**	375,950
Current assets					
Trade and other receivables	14	**12,009**	7,716	**3,598**	320
Other accrued income and prepaid expenses		**2,751**	2,419	**1,118**	1,183
Other current assets		**–**	46	**–**	–
Cash and cash equivalents	15	**74,555**	19,295	**60,695**	6,909
Total current assets		**89,315**	29,476	**65,411**	8,412
Total assets		**455,895**	413,186	**430,343**	384,362
Current liabilities					
Amounts owed to subsidiary undertakings		**–**	–	**46,123**	47,475
Trade and other payables	16	**9,541**	8,260	**97**	1,779
Short term borrowings	20	**34**	5,696	**–**	5,686
Corporation tax payable		**848**	548	**32**	64
Other taxation including social security		**430**	433	**267**	288
Deferred income		**4,026**	4,326	**13**	13
Total current liabilities		**14,879**	19,263	**46,532**	55,305
Non current liabilities and deferred income					
Long term borrowings	20	**39,257**	39,230	**–**	–
Retirement benefit obligations	23	**1,073**	6,443	**–**	–
Deferred income		**8,041**	8,626	**263**	274
Total non current liabilities		**48,371**	54,299	**263**	274
Total net assets		**392,645**	339,624	**383,548**	328,783
Equity and liabilities					
Called up share capital	17	**5,886**	5,882	**5,886**	5,882
Share premium		**7,410**	7,231	**7,410**	7,231
Capital redemption		**8**	8	**8**	8
Share based payments		**167**	114	**–**	–
Own shares		**(1,326)**	(963)	**–**	–
Reserves	18	**357,024**	309,075	**357,242**	304,683
Retained earnings		**23,706**	18,204	**13,002**	10,979
Translation reserve		**(230)**	73	**–**	–
Total equity shareholders' funds		**392,645**	339,624	**383,548**	328,783

Approved and authorised for issue by the board on 27 February 2007 and signed on its behalf by:

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

for the year ended 31 December

	Share capital £000	Share premium £000
Group		
Balance at 1 January 2005	5,875	7,026
Net profit	–	–
Foreign exchange	–	–
Actuarial gain on pensions scheme (net of tax)	–	–
Total income and expenditure	–	–
Issue of shares	7	205
Dividend relating to 2004	–	–
Dividend relating to 2005	–	–
Share based payment	–	–
Movement in own shares	–	–
Total equity shareholders' funds at 31 December 2005	5,882	7,231
Balance at 1 January 2006	**5,882**	**7,231**
Net profit	–	–
Foreign exchange	**–**	**–**
Actuarial gain on pensions 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**

	Share capital £000	Share premium £000
Company		
Balance at 1 January 2005	5,875	7,026
Net profit (and total income and expenditure)	–	–
Issue of shares	7	205
Dividend relating to 2004	–	–
Dividend relating to 2005	–	–
Total equity shareholders' funds at 31 December 2005	5,882	7,231
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**

Capital reserves comprises realised and unrealised gains on investments held at fair value through profit or loss (see note 18).

	Own shares £000	Capital redemption £000	Share based payments £000	Foreign exchange £000	Capital reserves £000	Retained earnings £000	Total £000
	(927)	8	63	(177)	245,033	15,613	272,514
	–	–	–	–	64,042	11,773	75,815
	–	–	–	250	–	–	250
	–	–	–	–	–	14	14
	–	–	–	250	64,042	11,787	76,079
	–	–	–	–	–	–	212
	–	–	–	–	–	(5,571)	(5,571)
	–	–	–	–	–	(3,625)	(3,625)
	–	–	51	–	–	–	51
	(36)	–	–	–	–	–	(36)
	(963)	8	114	73	309,075	18,204	339,624
	(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**

	Own shares £000	Capital redemption £000	Share based payments £000	Foreign exchange £000	Capital reserves £000	Retained earnings £000	Total £000
	–	8	–	–	240,822	5,182	258,913
	–	–	–	–	63,861	14,993	78,854
	–	–	–	–	–	–	212
	–	–	–	–	–	(5,571)	(5,571)
	–	–	–	–	–	(3,625)	(3,625)
	–	8	–	–	304,683	10,979	328,783
	–	**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**

for the year ended 31 December

	Group		Corporation	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Operating activities				
Cash generated from operating activities	**13,794**	14,948	**10,798**	19,007
Taxation	**(1,199)**	(1,315)	**–**	–
Interest paid	**(2,458)**	(2,471)	**(3,120)**	(3,117)
Pension special contribution	**(1,615)**	(885)	**–**	–
Operating cash flow	**8,522**	10,277	**7,678**	15,890
Investing activities				
Capital expenditure	**(114)**	(46)	**–**	–
Expenditure on intangible assets	**(9)**	(4)	**–**	–
Purchase of investments	**(35,038)**	(71,592)	**(40,070)**	(71,583)
Sale of investments	**98,967**	59,508	**103,978**	59,402
Sale of fixed assets	**22**	37	**–**	–
Cash flow from investing activities	**63,828**	(12,097)	**63,908**	(12,181)
Financing activities				
Subsidiary undertakings	**–**	–	**(1,352)**	(499)
Dividends paid	**(10,945)**	(9,196)	**(10,945)**	(9,196)
Proceeds of increase in share capital	**183**	212	**183**	212
Purchase of own shares	**(363)**	(36)	**–**	–
Net cash flow from financing activities	**(11,125)**	(9,020)	**(12,114)**	(9,483)
Net increase/(decrease) in cash and cash equivalents	**61,225**	(10,840)	**59,472**	(5,774)
Cash and cash equivalents at beginning of period	**13,599**	24,189	**1,223**	6,997
Exchange (losses)/gains on cash and cash equivalents	**(303)**	250	**–**	–
Cash and cash equivalents at end of period	**74,521**	13,599	**60,695**	1,223
Cash and cash equivalents comprise				
Cash and cash equivalents	**74,555**	19,295	**60,695**	6,909
Bank loans and overdrafts	**(34)**	(5,696)	**–**	(5,686)
	74,521	13,599	**60,695**	1,223

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

	2006 £000	2005 £000	**2006 £000**	2005 £000
Return including profit before interest payable and taxation	**18,851**	15,648	**16,222**	18,371
Depreciation of property plant and equipment	**137**	131	**–**	–
Depreciation of intangible assets	**55**	84	**–**	–
Profit on sale of fixed assets	**(1)**	(6)	**–**	–
Share based payments	**53**	51	**–**	–
(Increase)/decrease in debtors	**(4,579)**	(2,826)	**(3,213)**	1,076
Increase/(decrease) in creditors	**389**	2,584	**(1,736)**	278
Transfer from capital reserves	**(307)**	(521)	**(307)**	(521)
UK and overseas withholding tax deducted at source	**(168)**	(197)	**(168)**	(197)
Normal pension contributions in excess of cost	**(636)**	–	**–**	–
Net cash inflow from operating activities	**13,794**	14,948	**10,798**	19,007

1 Summary of significant accounting policies

General information
The Law Debenture Corporation p.l.c. is a public company incorporated in the United Kingdom under the Companies Act 1985. 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 trustee and related 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 consolidated 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 better to 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 266 of the Companies Act 1985, 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 trustee and related services, this is consistent with internal reporting. The overseas companies 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 retranslation 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 lease period
Office furniture and equipment	3-10 years

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 fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. All goodwill was written off to reserves under UK GAAP prior to 1998 and 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.

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.

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.

1 Summary of significant accounting policies continued

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 company operates a defined benefit pension plan. The cost of providing benefits is determined using the projected 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

Trustee and related services income	2006 £000	2005 £000
Geographical analysis by location of client:		
United Kingdom	**12,717**	12,876
Overseas	**14,024**	10,680
	26,741	23,556

3 Total capital gains/(losses) from investments

	2006 £000	2005 £000
Realised gains based on historical cost	**32,292**	11,577
Amounts recognised as unrealised in previous years	**(31,308)**	(11,233)
Realised gains based on carrying value at previous balance sheet date	**984**	344
Unrealised profits on investments	**47,451**	64,516
	48,435	64,860
Transfers to revenue	**(307)**	(521)
	48,128	64,339

4 Administrative expenses

	2006 £000	2005 £000
Administrative expenses include:		
Salaries and directors' fees	**6,948**	6,200
Social security costs	**645**	495
Other pension costs	**261**	957
Investment management fee	**933**	814
Irrecoverable VAT on investment management fees	**71**	65
Depreciation – property, plant and equipment	**137**	131
– intangible assets	**55**	84
Profit on sale of property, plant and equipment	**(1)**	(6)
Operating leases – land and buildings	**1,099**	1,048
Foreign exchange	**48**	(11)
Auditors' remuneration	**136**	153

During the year, the Corporation employed an average of 88 staff (2005: 80). All staff are engaged in the provision of trustee and related services.

Details of the terms of the investment management agreement are provided on page 21 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:

	2006 £000	2005 £000
Audit services		
– fees payable to the Corporation's auditors for the audit of its financial statements*	**86**	85
– audit related regulatory reporting	**3**	3
Tax services	**43**	48
Other services	**4**	17
	136	153

* Including the Corporation £28,750 (2005: £26,000).

A description of the work of the audit committee is set out in the Audit committee report on page 25 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

	2006 £000	2005 £000
Directors' emoluments, which comprise the following, are included in administrative expenses:		
Directors' fees	**170**	163
Management remuneration	**449**	399
	619	562

The emoluments of the highest paid director totalled £458,000 (2005: £424,000) and included employer pension contributions of £9,000 (2005: £25,000) and amounts accrued under the terms of the employee bonus plan of £130,000 (2005: £120,000). Her accrued pension entitlement is as follows:

	2006 £000
Increase during 2006 including inflation increase	**–**
Accumulated total accrued pension at 31 December 2006	**7**
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 2006 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 28.

6 Interest payable

	2006 £000	2005 £000
Interest on debenture stock	**2,450**	2,450
Interest on bank overdrafts	**8**	21
	2,458	2,471

continued

7 Segmental analysis

	Investment trust		Trustee services		Total	
	31 December 2006 £000	31 December 2005 £000	**31 December 2006 £000**	31 December 2005 £000	**31 December 2006 £000**	31 December 2005 £000
Segment revenue	**11,480**	10,941	**26,741**	23,556	**38,221**	34,497
Other income	**30**	61	**114**	46	**144**	107
Cost of sales	**–**	–	**(8,465)**	(7,342)	**(8,465)**	(7,342)
Administration costs	**(1,804)**	(1,684)	**(11,719)**	(10,998)	**(13,523)**	(12,682)
	9,706	9,318	**6,671**	5,262	**16,377**	14,580
Interest (net)	**(1,260)**	(2,411)	**1,276**	1,008	**16**	(1,403)
Return, including profit on ordinary activities before taxation	**8,446**	6,907	**7,947**	6,270	**16,393**	13,177
Taxation	**(168)**	(197)	**(1,961)**	(1,207)	**(2,129)**	(1,404)
Return, including profit attributable to shareholders	**8,278**	6,710	**5,986**	5,063	**14,264**	11,773
Return per ordinary share	**7.07**	5.73	**5.11**	4.32	**12.18**	10.05
Assets	**430,343**	384,362	**25,552**	28,824	**455,895**	413,186
Liabilities	**(46,795)**	(55,579)	**(16,455)**	(17,983)	**(63,250)**	(73,562)
Total net assets	**383,548**	328,783	**9,097**	10,841	**392,645**	339,624

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

Other information

	£000	£000	**£000**	£000	**£000**	£000
Capital expenditure	**–**	–	**128**	49	**128**	49
Depreciation	**–**	–	**191**	209	**191**	209

8 Taxation

	2006 £000	2005 £000
Taxation based on revenue for the year comprises:		
UK Corporation tax at 30%	**1,259**	1,150
Adjustments in respect of prior years	**41**	(23)
	1,300	1,127
Overseas tax		
Current tax on income for the year	**367**	197
Total current tax charge	**1,667**	1,324
Deferred tax	**462**	80
	2,129	1,404

8 Taxation continued

Taxation

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

	2006 £000	2005 £000
Return on ordinary activities before tax	**16,393**	13,177
Tax on ordinary activities at standard rate 30%	**4,918**	3,953
Effects of:		
Expenses not deductible for tax purposes	**132**	124
Higher rates of tax on overseas income	**(35)**	82
Tax credit on dividend income	**(2,947)**	(2,811)
Utilisation of losses brought forward	**(101)**	(119)
Adjustment in respect of prior periods	**41**	(23)
Unrelieved withholding tax	**117**	138
Tax at small companies rate	**(5)**	(14)
Losses on overseas companies for which no tax relief arises	**–**	11
Other differences	**9**	63
	2,129	1,404

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

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 2005	35	2,204	17	(64)	2,192
Charge/(credited) to income	144	(265)	9	32	(80)
Credited to equity	–	(6)	–	–	(6)
At 1 January 2006	179	1,933	26	(32)	2,106
Charge/(credited) to income	142	(675)	39	32	(462)
Credited to equity	–	(936)	–	–	(936)
Foreign exchange	(3)	–	–	–	(3)
At 31 December 2006	**318**	**322**	**65**	**–**	**705**

continued

9 Dividends on ordinary shares

	2006 £000	2005 £000
Dividends on ordinary shares comprise the following:		
2006 Interim 3.40p (2005: 3.10p)	**3,982**	3,625
2005 Final 5.95p (2004: 4.24p)	**6,963**	5,571
Total for year	**10,945**	9,196
Proposed final dividend for the year ended 31 December 2006	**8,315**	

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.

Set out below is 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.

	2006 £000	2005 £000
2006 Interim 3.40p (2005: 3.10p)	**3,982**	3,625
2006 Final dividend 7.10p (2005: 5.95p)	**8,315**	6,977
-	**12,297**	10,602

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 607,357 shares owned by the Employee Share Ownership Trust ('ESOT') (see Note 17).

10 Earnings per share from continuing operations

Revenue return is based on profits attributable of £14,264,000 (2005: £11,773,000).

Capital return per share is based on net capital gain for the year of £47,949,000 (2005: £64,042,000).

The calculations of both revenue and capital returns per share are based on 117,095,929 (2005: 117,119,128) 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 117,468,330 (2005: 117,381,471) 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 Property, plant and equipment

Group

	Leasehold improvements 2006 £000	Office furniture & equipment 2006 £000	Total 2006 £000	Leasehold improvements 2005 £000	Office furniture & equipment 2005 £000	Total 2005 £000
Cost						
At 1 January	**739**	**687**	**1,426**	757	687	1,444
Additions at cost	**–**	**114**	**114**	–	46	46
Disposals at cost	**(8)**	**(59)**	**(67)**	(18)	(46)	(64)
At 31 December	**731**	**742**	**1,473**	739	687	1,426
Accumulated depreciation						
At 1 January	**245**	**442**	**687**	197	392	589
Charge	**51**	**86**	**137**	54	77	131
Disposals	**(6)**	**(39)**	**(45)**	(6)	(27)	(33)
At 31 December	**290**	**489**	**779**	245	442	687
Net book value at 31 December	**441**	**253**	**694**	494	245	739

The Corporation holds no property, plant and equipment.

12 Intangible assets

Group

	Computer software 2006 £000	Computer software 2005 £000
Cost		
At 1 January	**558**	554
Additions at cost	**9**	4
At 31 December	**567**	558
Accumulated depreciation		
At 1 January	**445**	361
Charge	**55**	84
At 31 December	**500**	445
Net book value at 31 December	**67**	113

The Corporation holds no intangible fixed assets.

continued

13 Investments

Investments held at fair value through profit or loss

	2006			2005		
	Listed £000	**Unlisted £000**	**Total £000**	Listed £000	Unlisted £000	Total £000
Group						
Opening cost at 1 January	**249,135**	**190**	**249,325**	225,681	280	225,961
Gains at 1 January	**131,422**	**–**	**131,422**	78,133	6	78,139
Opening fair value at 1 January	**380,557**	**190**	**380,747**	303,814	286	304,100
Purchases at cost	**35,038**	**–**	**35,038**	71,583	9	71,592
Cost of acquisition	**(139)**	**–**	**(139)**	(297)	–	(297)
Sales – proceeds	**(98,967)**	**–**	**(98,967)**	(59,402)	(106)	(59,508)
Realised gains on sales	**32,292**	**–**	**32,292**	11,570	7	11,577
Gains in the income statement	**16,143**	**–**	**16,143**	53,289	(6)	53,283
Closing fair value at 31 December	**364,924**	**190**	**365,114**	380,557	190	380,747
Closing cost at 31 December	**217,359**	**190**	**217,549**	249,135	190	249,325
Gains	**147,565**	**–**	**147,565**	131,422	–	131,422
Closing fair value at 31 December	**364,924**	**190**	**365,114**	380,557	190	380,747

	2006			2005		
	Listed £000	**Unlisted £000**	**Total £000**	Listed £000	Unlisted £000	Total £000
Corporation						
Opening cost at 1 January	**249,210**	**–**	**249,210**	225,756	–	225,756
Gains at 1 January	**126,645**	**–**	**126,645**	73,590	–	73,590
Opening fair value at 1 January	**375,855**	**–**	**375,855**	299,346	–	299,346
Purchases at cost	**40,070**	**–**	**40,070**	71,583	–	71,583
Cost of acquisition	**(149)**	**–**	**(149)**	(297)	–	(297)
Sales – proceeds	**(98,967)**	**–**	**(98,967)**	(59,402)	–	(59,402)
Realised gains on sales	**32,292**	**–**	**32,292**	11,570	–	11,570
Gains in the income statement	**15,823**	**–**	**15,823**	53,055	–	53,055
Closing fair value at 31 December	**364,924**	**–**	**364,924**	375,855	–	375,855
Closing cost at 31 December	**222,456**	**–**	**222,456**	249,210	–	249,210
Gains	**142,468**	**–**	**142,468**	126,645	–	126,645
Closing fair value at 31 December	**364,924**	**–**	**364,924**	375,855	–	375,855

Included in unlisted investments in the group balance sheet are subsidiary undertakings which are held in connection with the group's trustee 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 £296,880 (2005: £290,400) in respect of these undertakings.

There were no amounts outstanding with these undertakings at the year end (2005: nil).

13 Investments continued

Investments in subsidiary undertakings – Corporation

	2006 £000	2005 £000
Cost		
At 1 January	**90**	90
Disposal	**(82)**	–
At 31 December	**8**	90

During the year The Law Debenture Corporation (H.K.) Limited repurchased part of its share capital for £5,011,000.

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 trustee and related services.

L.D.C. Trust Management Limited
† Law Debenture Corporate Services Limited
† Law Debenture Corporate Services Inc (incorporated in New York)
† Law Debenture Finance p.l.c.
† Law Debenture Guarantee Limited
† Law Debenture Holdings 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)

† Shares held by a subsidiary.

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

14 Trade and other receivables

An allowance has been made during the year for the estimated irrecoverable amounts from the sale of services of £301,000 (2005: £738,000). This allowance has been determined by reference to past experience.

The directors consider that the carrying amount of receivables approximates to their fair value.

15 Cash and cash equivalents

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

16 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.

continued

17 Called up share capital

	2006 £000	2005 £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	**5,882**	5,875
Issued in year	**4**	7
As at 31 December	**5,886**	5,882
Shares		
As at 1 January	**117,633,040**	117,515,415
Issued in year	**86,973**	117,625
As at 31 December	**117,720,013**	117,633,040

During the year to 31 December 2006, 86,973 shares were allotted under the SAYE Scheme and Executive Share Option Scheme (‘ESOT’) for a total consideration of £183,324 which includes a premium of £178,975.

During the year, 23,721 options were granted under the Corporation’s SAYE Scheme at 31 December 2006, options under the schemes exercisable from 2005 to 2012 at prices ranging from 172.4p to 283.7p per share were outstanding in respect of 916,022 ordinary shares (2005: 999,201) ordinary shares. During 2006 19,927 options lapsed or were cancelled (2005: 350,765).

Further details of options outstanding are given in the directors' report on page 21. 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

	2006 £000	2005 £000
Own shares held – cost	**1,326**	963

The own shares held represent the cost of 607,357 (2005: 493,678) ordinary shares of 5p each in the Corporation, acquired by the ESOT in the open market. The shares have been acquired to meet the requirements of the Executive Share Option Scheme. The dividends relating to the shares have been waived. The market value of the shares at 31 December 2006 was £2,119,676.

18 Capital reserves

	2006 Unrealised appreciation £000	2006 Realised reserves £000	2006 Total £000	2005 Unrealised appreciation £000	2005 Realised reserves £000	2005 Total £000
Group						
At 1 January	**130,022**	**179,053**	**309,075**	77,557	167,476	245,033
Transfer on disposal of investments	**(31,308)**	**31,308**	**–**	(11,233)	11,233	–
Net gains on investments	**47,451**	**984**	**48,435**	64,516	344	64,860
Cost of acquisition	**(179)**	**–**	**(179)**	(297)	–	(297)
Transfers to revenue	**(307)**	**–**	**(307)**	(521)	–	(521)
At 31 December	**145,679**	**211,345**	**357,024**	130,022	179,053	309,075

	2006 Unrealised appreciation £000	2006 Realised reserves £000	2006 Total £000	2005 Unrealised appreciation £000	2005 Realised reserves £000	2005 Total £000
Corporation						
At 1 January	**125,286**	**179,397**	**304,683**	72,995	167,827	240,822
Transfer on disposal of investments	**(31,308)**	**36,237**	**4,929**	(11,233)	11,233	–
Net gains on investments	**47,451**	**665**	**48,116**	64,342	337	64,679
Cost of acquisition	**(179)**	**–**	**(179)**	(297)	–	(297)
Transfers to revenue	**(307)**	**–**	**(307)**	(521)	–	(521)
At 31 December	**140,943**	**216,299**	**357,242**	125,286	179,397	304,683

Cumulative goodwill of £325,000 relating to companies presently within the group was written off directly to capital reserves in prior periods. No goodwill has arisen since 1998.

19 Financial instruments

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

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

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

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

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

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

continued

19 Financial instruments continued

	2006			2005		
	Investments £m	**Net monetary assets £m**	**Total currency exposure £m**	Investments £m	Net monetary assets £m	Total currency exposure £m
Group						
US Dollar	**0.9**	**2.8**	**3.7**	23.1	2.6	25.7
Canadian Dollar	–	–	–	0.7	–	0.7
Euro	**41.2**	**0.2**	**41.4**	32.3	1.5	33.8
Danish Krone	**1.3**	–	**1.3**	1.5	–	1.5
Swiss Franc	**7.5**	–	**7.5**	6.1	–	6.1
Hong Kong Dollar	–	**0.7**	**0.7**	4.7	0.6	5.3
Japanese Yen	**6.4**	–	**6.4**	6.7	(5.7)	1.0
	57.3	**3.7**	**61.0**	75.1	(1.0)	74.1

	2006			2005		
	Investments £m	**Net monetary assets £m**	**Total currency exposure £m**	Investments £m	Net monetary assets £m	Total currency exposure £m
Corporation						
US Dollar	**0.9**	**0.3**	**1.2**	23.1	–	23.1
Canadian Dollar	–	–	–	0.7	–	0.7
Euro	**41.2**	**0.1**	**41.3**	32.3	–	32.3
Danish Krone	**1.3**	–	**1.3**	1.5	–	1.5
Swiss Franc	**7.5**	–	**7.5**	6.1	–	6.1
Japanese Yen	**6.4**	–	**6.4**	6.7	(5.7)	1.0
	57.3	**0.4**	**57.7**	70.4	(5.7)	64.7

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 £41.0 million (2005: £38.6 million).

- **liquidity risk**, arising from any difficulty in realising assets or raising funds to meet commitments associated with any of the above financial instruments. To minimise this risk, the board's policy guidelines only permit investment in equities and fixed interest securities quoted in major financial markets. In addition, cash balances and overdraft facilities are maintained commensurate with likely future settlements. The maturity of the group's existing borrowings is set out in Note 20. The group has a multi-currency loan facility of £10 million which was undrawn at 31 December 2006.
- **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 2006 was:

	Group				**Corporation**	
	Sterling £m	**HK Dollars £m**	**US Dollars £m**	**Euro £m**	**Sterling £m**	**Euro £m**
Fixed rate assets	–	–	–	–	–	–
Floating rate assets	**71.5**	**0.7**	**2.3**	**0.1**	**60.6**	**0.1**
Fixed rate liabilities*	**39.3**	–	–	–	–	–
Floating rate liabilities	–	–	–	–	–	–
Weighted average fixed rate	**6.125%**					

* Fixed until 2034.

19 Financial instruments continued

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

Fair value

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

20 Bank overdrafts and loans

	2006 %	2005 %
The weighted average interest rates were as follows:		
Bank overdrafts (Sterling)	**5.64**	5.65
Bank loan (Japanese Yen)	**–**	0.94

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	
	2006 £000	2005 £000	**2006** £000	2005 £000
Borrowings are repayable as follows:				
In one year or less	**34**	5,696	**–**	5,686
Total	**34**	5,696	**–**	5,686
In more than five years				
Secured				
6.125% guaranteed secured bonds 2034	**39,257**	39,230	**–**	–

The sterling bank overdrafts of £34,000 (2005: £10,000) have been incurred in connection with the trustee business. A bank loan of £5,686,000 was repaid in the year.

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.

Analysis of borrowings by currency

	2006			2005		
	Sterling £000	**Yen** £000	**Total** £000	Sterling £000	Yen £000	Total £000
Bank overdrafts	**34**	**–**	**34**	10	–	10
Loans	**–**	**–**	**–**	–	5,686	5,686
	34	**–**	**34**	10	5,686	5,696

21 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 (£25.5 million).

The group is also from time to time party to legal proceedings and claims, which arise in the ordinary course of the trustee and related services business. The directors do not believe that the outcome of any of the above proceedings and 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 23).

continued

22 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 2006 £000	Other 2006 £000	Total 2006 £000	Total 2005 £000
Less than one year	**1,163**	**3**	**1,166**	1,033
One to five years	**5,679**	**–**	**5,679**	4,573
More than five years	**7,752**	**–**	**7,752**	7,755
	14,594	**3**	**14,597**	13,361

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.

23 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. The group has adopted the revised version of IAS19 (Employee Benefits) published in December 2004. As permitted by the revised standard, 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 2006, the expected rate of return on assets is 6.4% pa (2005: 6.1% 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 2006.

The estimated employer and employee contributions expected to be paid to the plan during 2007 is £1.3 million (2006: £2.6 million). The estimated contributions take into account the triennial actuarial valuation as at 31 December 2005, which was completed during the year.

The major assumptions in the 31 December 2006 disclosure under IAS19 are shown below and are applied to membership data supplied at that date. This shows the net pension assets and liabilities.

	2006 %	2005 %
Principal actuarial assumptions:		
Retail Price Inflation	**2.9**	2.9
Discount rate	**5.2**	4.7
5% LPI Pension increases in payment	**2.9**	2.9
General salary increases	**4.4**	4.4
Expected return on assets	**6.4**	6.1
Life expectancy of male aged 65 in 2006	**20.9**	20.8
Life expectancy of male aged 65 in 2026	**22.0**	22.0

23 Pension commitments continued

	2006 £000	2005 £000
Present value of defined benefit obligation	**25,440**	27,371
Fair value of plan assets	**(24,367)**	(20,928)
Deficit in balance sheet	**1,073**	6,443

	2006 £000	2005 £000
The amounts recognised in profit or loss are as follows:		
Employer's part of current service cost	**615**	814
Interest cost	**1,275**	1,282
Expected return on plan assets	**(1,316)**	(1,143)
Past service costs	**(403)**	–
Total expense recognised in profit or loss	**171**	953

	2006		2005	
	%	£000	%	£000
The current allocation of plan assets is as follows:				
Equities	**60**	**14,528**	60	12,621
Bonds	**9**	**2,317**	8	1,755
Gilts	**23**	**5,544**	23	4,695
Pensioner annuities	**4**	**886**	5	953
Property	**3**	**840**	3	709
Other	**1**	**252**	1	195
Total	**100**	**24,367**	100	20,928

	2006 £000	2005 £000
Reconciliation of present value of defined benefit obligation		
Opening defined benefit obligation	**27,371**	24,010
Employer's part of current service cost	**615**	814
Interest cost	**1,275**	1,282
Contributions by plan participants	**130**	–
Actuarial (gains) and losses	**(2,303)**	1,704
Benefits paid	**(1,245)**	(439)
Past service costs	**(403)**	–
Closing defined benefit obligation	**25,440**	27,371

continued

23 Pension commitments continued

	2006 £000	2005 £000
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	**20,928**	16,662
Expected return on plan assets	**1,316**	1,143
Actuarial gains and (losses)	**816**	1,724
Contributions by the employer	**2,422**	1,838
Contributions by plan participants	**130**	–
Benefits paid	**(1,245)**	(439)
Closing fair value of plan assets	**24,367**	20,928

	2006 £000	2005 £000	2004 £000	2003 £000	2002 £000
Principal actuarial assumptions					
Present value of defined benefit obligation	**25,440**	27,371	24,010	20,222	16,922
Fair value of plan assets	**(24,367)**	(20,928)	(16,662)	(14,609)	(11,661)
Deficit	**1,073**	6,443	7,348	5,613	5,261
Experience adjustments on plan assets					
Amount of gain/(loss)	**816**	1,724	771	1,592	(2,721)
Percentage of plan assets	**3%**	8%	5%	11%	(23%)
Experience adjustments on plan liabilities					
Amount of gain/(loss)	**39**	797	(62)	157	(58)
Percentage of the present value of the plan liabilities	**–**	3%	–	1%	–
Expense to be recognised immediately outside profit or loss					
Actuarial (gains) and losses	**(3,119)**	(20)	(1,766)	708	(3,806)

24 Share based payments

The company operates a share option scheme for certain executive directors and senior members of staff.

Details of the share options outstanding were:

	2006		2005	
	Share options Number	**Weighted average price Pence**	Share options Number	Weighted average price Pence
Outstanding at 1 January	**689,997**	**202.26**	1,153,262	213.04
Exercised during the year	**(78,750)**	**212.10**	(112,500)	176.88
Lapsed/forfeited during the year	**–**	**–**	(350,765)	245.80
Outstanding at 31 December	**611,247**	**201.00**	689,997	202.26
Exercisable at 31 December	**168,750**	**212.10**	247,500	212.10

	2006 Pence	2005 Pence
Weighted average share price at date of exercise	**316.92**	260.22

24 Share based payments continued

Details of the number of option holders is given on page 21 of the remuneration report.

Inputs into the Black-Scholes model are as follows:

	2006	2005
Expected volatility	**20%**	20%
Interest rate	**5%**	5%
Expected life (yrs)	**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 £53,000 (2005: £51,000) in respect of share based payment transactions.

During the year the Deferred Share Bonus Plan made awards in respect of 113,676 shares with a market value of £362,000, which will be released to executives on 1 March 2009. The shares are held in the ESOT. The cost of the shares is being charged to the income statement over the vesting period.

25 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:

	2006 £000	2005 £000
Dividends from subsidiaries	**4,950**	8,450
Interest on intercompany balances charged by subsidiaries	**3,121**	3,138
Management charges from subsidiaries	**400**	415

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.

Financial calendar

Dividend and interest payments

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

Group results

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

Payment methods for dividends

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

The 117th annual general meeting of The Law Debenture Corporation p.l.c. will be held at 10.30am on Tuesday 17 April 2007 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 117th annual general meeting of the Corporation will be held on 17 April 2007 at 10.30am at the Brewers Hall, Aldermanbury Square, London EC2V 7HR for the following purposes:

Ordinary business

1. To receive the report of the directors and the audited accounts for the year ended 31 December 2006.

2. To receive and approve the directors' remuneration report for the year ended 31 December 2006.

3. To declare a final dividend of 7.10p per share in respect of the year ended 31 December 2006.

4. To re-elect R.J. Williams as a director.

5. To re-elect D.C.P. McDougall as a director.

6. 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:

7. 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 ('Shares'), in such manner and upon such terms as the directors of the Corporation may from time to time determine, PROVIDED ALWAYS THAT:

(a) the maximum number hereby authorised to be purchased shall be limited to 17,646,230 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

8. 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 £294,300;

(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.

9. Disapplication of statutory pre-emption rights

THAT:

(a) in exercise of the authority given to the directors by resolution 8 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 £294,300 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.

10. Amendment to the Corporation's articles of association

THAT the articles of association of the Corporation be altered as follows:

(a) by substituting for the existing article 68 ('Form of proxy') the following revised article 68 (proposed additional words are underlined):

"**68 Form of proxy**

An instrument appointing a proxy shall be in writing and <u>may be contained in an electronic communication</u> in any usual or common form or in any other form which the directors may approve and:

(a) in the case of an individual <u>submitting a proxy in writing and not in an electronic communication</u> shall be signed by the appointor or his attorney; and

(b) in the case of a corporation <u>submitting a proxy in writing and not in an electronic communication</u> shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the Corporation; and

(c) <u>in the case of an appointment contained in an electronic communication, submitted by or on behalf of the appointor, subject to such terms and conditions and authenticated in such manner as the Directors may approve.</u>

The signature on such instrument need not be witnessed. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy pursuant to the next following Article, failing which the instrument may be treated as invalid."

(b) by adding the following words denoted by underlining to article 69 ('Deposit of form of proxy'):

"An instrument appointing a proxy <u>(whether or not the proxy is contained in an electronic communication)</u> must be left at <u>or delivered</u> to such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified, at the Transfer Office) not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) 24 hours before the time appointed for the taking of the poll at which it is to be used, and in default shall not be treated as valid. The instrument shall, unless the contrary is stated thereon, be valid as well for any adjournment of the meeting as for the meeting to which it relates. An instrument of proxy relating to more than one meeting (including any adjournment thereof) having once been so delivered for the purposes of any meeting shall not require again to be delivered for the purposes of any subsequent meeting to which it relates, but shall not remain valid for more than twelve months from the date of its first such delivery."

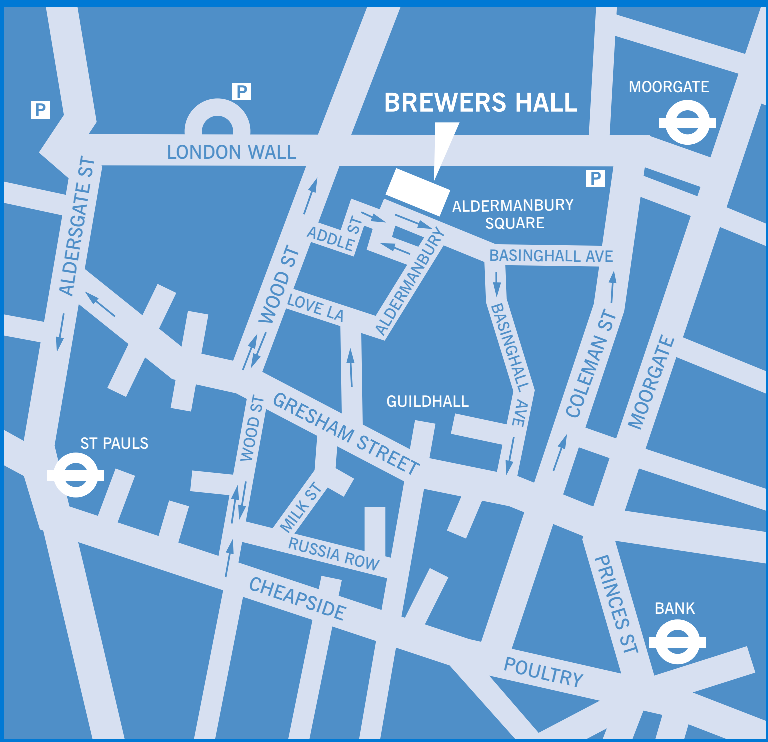
By order of the board

Law Debenture Corporate Services Limited
Secretary

27 February 2007

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. 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 dis-satisfaction 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. In accordance with the requirements of the Companies Act 1985, the register of directors' interests will be available for inspection at the registered office of the Corporation during normal business hours and at the annual general meeting. No director has a service contract with the Corporation of more than one year's duration.
4. Subject to the dividend on the ordinary shares now recommended being approved at the annual general meeting, dividends will be paid on 25 April 2007 to shareholders on the register on the record date on 16 March 2007.
5. Resolution 2 is to receive and approve the directors' remuneration report for the year ended 31 December 2006. The remuneration report is set out at pages 28 to 33 of the annual report of the Corporation.
6. Resolution 4: Mr R.J. Williams, having become a non-executive director as at 1 January 2005, and having served more than nine years on the board, is required under the Code on Corporate Governance to stand for annual re-election. The board supports his re-election because Mr Williams has 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 trustee business. His biography is included on page 5 of the annual report.
7. Resolution 5: Mr D.C.P. McDougall is required under the Articles of Association to retire and to offer himself for re-election, it being three years since his last re-election. The board supports his re-election. He has led 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 the investment strategy. His biography is included on page 5 of the annual report.
8. Resolution 6 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.
9. Special resolution 7 renews the authority given to directors at the last annual general meeting to purchase ordinary shares in the market for cancellation. Such purchases at appropriate times and prices could be a suitable method of enhancing shareholder value and would be applied within guidelines set from time to time by the board. It should be noted that no such purchases would be undertaken if shares were trading at or near a premium to net asset value.
10. Special resolution 8 renews the authority given to directors at the last annual general meeting to allot unissued capital not exceeding 5,886,000 shares, being 5% of the issued share capital. This authority is sought principally to allow the directors to satisfy demand for shares from participants in the Personal Equity Plan and Individual Savings Account, and would be exercised only at times when it would be advantageous to the Corporation's shareholders to do so. Shares would not be issued under this authority at a price lower than net asset value at the time of the issue. If approved, the authority will continue to operate until the next annual general meeting.
11. Special resolution 9 is proposed because the directors consider that in order to allot shares in the circumstances described in resolution 8 it is in the best interests of the Corporation and its shareholders to allot a maximum of 5,886,000 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.
12. Special resolution 10 is proposed to enable those of the Corporation's shareholders that wish to do so to lodge proxy forms electronically. The articles of association do not contemplate electronic communication and therefore need to be updated in the simple manner described in the AGM Notice. The Corporation is keen to facilitate shareholder participation and these minor amendments to articles 68 and 69 should make it easier for some shareholders to lodge proxy forms when otherwise they might not have done so. The traditional means of submitting proxy forms in writing will continue to be available. Shareholders should be clear that this proposed change to the articles does NOT allow the directors to take advantage of the Companies Act 2006 provision that enables companies to communicate with shareholders only by electronic means (unless the shareholder actively "opts in" to receiving communications by traditional means).



AGM Venue
Brewers Hall
Aldermanbury Square
London EC2V 7HR

Tel: 020 7606 1303

Designed and produced by paperwork

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