



Law Debenture

Annual Report 2003

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Performance summary of The Law Debenture Corporation p.l.c.

	<u>2003</u>	<u>2002</u>	Change %
Net asset value per share	206.1p	170.5p	20.9
Net asset value per share - fully diluted.....	206.1p	170.5p	20.9
FTSE All Share Index.....	2,207.4	1,893.7	16.6
Net asset value total return %	25.9	(19.7)	
FTSE All Share Index total return %	20.9	(22.7)	
Dividends per share	6.90p	6.90p	–
Earnings			
- £000	8,073	7,402	9.1
- pence per share.....	6.91p	6.33p	9.2
- pence per share - fully diluted.....	6.91p	6.33p	9.2
Assets			
- Total assets less current liabilities £m	290.7	248.2	17.1
- Shareholders' funds £m	241.7	199.6	21.1
Share price	221.75p	192.5p	15.2

Company summary

Global Growth Investment Trust

Corporate objective

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 FT-SE Actuaries All Share Index through investing in a portfolio diversified both geographically and by industry.

Manager & fee

Law Debenture is an independently run company whose portfolio investments are managed by Henderson Global Investors Limited under a contract terminable by either side on 12 months' notice.

Investment fee: 0.25% p.a. of average portfolio value (excluding cash).

The balance sheet is managed by Law Debenture.

Law Debenture share services

PEP/ISA

Savings plan

Share dealing

Trustee and related services

Corporate objective

To develop profitably our position as the leading independent provider of professional trustee, fiduciary and related services to the wholesale markets and to occupational pension schemes.

Offices

London, New York, Hong Kong, Jersey, Cayman Islands

Services provided

Commercial trusts

Corporate solutions

Debt finance

Structured finance

Project finance

Dual listed companies

Delegated and successor trusteeships

Escrow arrangements

Treasury management

Custody

Distribution and calculation agent

Investment management, discretionary and non-discretionary

Administration

Pension scheme trustee

Agent for service of process

Company secretarial services, including provision of directors

Investor services administration

Ten year record

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total assets less current liabilities (£m)	157.4	146.3	181.4	228.1	244.3	259.7	338.2	340.9	308.7	248.2	290.7
Group revenue (£m)	11.7	12.6	14.2	15.9	17.1	17.9	18.6	21.1	21.0	22.3	23.2
Total return ¹ (pence)	34.5	(6.6)	30.1	20.5	41.5	20.8	38.9	12.9	(22.7)	(43.8)	44.2
Earnings ¹ (pence)	4.38	4.70	5.36	6.60	7.20	7.34	7.70	7.85	7.05	6.33	6.91
Dividends ¹ (pence)	3.85	4.10	4.45	5.00	5.70	6.20	6.60	6.80	6.90	6.90	6.90
N.A.V. ¹ (pence)	133.5	122.7	148.9	164.4	199.8	214.2	246.5	252.6	222.9	170.5	206.1
Share price ¹ (pence)	164.6	146.2	188.4	186.2	222.0	214.3	233.6	239.6	233.5	192.5	221.75
Premium/ (Discount)(%)	23.3	19.2	26.6	13.3	11.1	0.0	(5.2)	(5.1)	4.7	12.9	7.6
Market cap. (£m)	186.7	165.8	214.4	215.5	258.5	249.9	272.6	279.4	272.7	225.3	260.0
Cost of running investment trust (% of average portfolio value)	0.40	0.45	0.46	0.43	0.39	0.42	0.46	0.47	0.48	0.51	0.49

Long term performance

	5 years %	10 years %
NAV total return ²	14.8	113.9
FTSE Actuaries All Share Index total return ²	(5.3)	81.1
Share price total return ²	20.5	78.5
Change in retail price index ²	11.1	31.1
Annual earnings growth	(1.3)	4.6
Annual dividend growth	0.9	6.0
Annual RPI change	2.2	2.8

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

² Source: AITC

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

Chairman's statement

Performance

Over the year to 31 December 2003, our net asset value per share increased 20.9%, from 170.5p to 206.1p. This compares favourably with the increase in our benchmark, the FTSE Actuaries All-Share Index, of 16.6%. Our net asset value total return for the year was 25.9%, which exceeded our benchmark by 5.0%. Approximately 40% of the outperformance was achieved by the performance of our portfolio, the other 60% being due to our gearing.

Our gross revenue increased over the year by 4.1% from £22.3 million to £23.2 million. Profit attributable to shareholders was £8.1 million, an increase of 9.1% over the previous year as a result of improved performance in both the investment trust and trustee and related services, together with a reduced taxation charge.

Earnings and dividends

Earnings per share for the year to 31 December 2003 were 6.91p, an increase of 9.2% from the level of last year. The board is recommending a final dividend of 4.24p per share (2002: 4.24p), which, together with the interim dividend of 2.66p, gives a total unchanged dividend for the year of 6.90p. The final dividend will be paid on 27 April 2004 to holders on the register on the record date of 12 March 2004. It is disappointing that for the second year in succession it has not been possible to recommend an increase in dividend. The policy of the company continues to be to seek growth of income, in both its investment trust and its trustee related activities, and hence growth of dividends. The recent past has been generally flat for company dividends, and trustee related profits have disappointed over the last two years. Shareholders should remember that the earnings of Law Debenture are more conservatively calculated than those of most other investment trusts, since all our expenses are charged to the income account. We believe that this approach leaves us better placed to achieve growth of both capital and income in the future.

Investment Trust

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

When we saw improvements in the background to markets during the year, we took the decision to invest a further £6 million in our portfolio, out of the funds in the trustee services business. This worked to our advantage. Our gearing at the year end was unchanged from the previous year at 16%.

In 2003 we added to our investments in the UK, North America and the Pacific region and reduced our investments in Continental Europe. The increase in the Pacific region in particular had a very positive impact on the performance of the portfolio.

James Henderson took over the management of the portfolio following Michael Moule's retirement in the middle of the year. Like his predecessor, James has an independent, value based approach to investment, and we look to him to extend the successful record of the company.

Chairman's statement *continued*

Growth in most major economies has picked up, in some cases quite strongly, with favourable implications for company profits. Stock markets have benefited from this, as well as from easy monetary policies. Despite this favourable near term background we have concerns about the laxness of US monetary and fiscal policies, reflected in high rates of borrowing and a record current account deficit, and the dependence of the global economy on the readiness of Asian exporting countries to hold ever increasing stocks of depreciating dollars. Against this mixed background, we consider that we are still able to find equities at reasonable valuations.

Trustee and related services

Our trustee and related services business increased revenue by 5.9% and profit before tax by 5.0% over the previous year. This increase in profit was after a number of one-off costs, including unrecovered costs in respect of defaults, costs of restructuring the commercial trusts business and the continued investment in our New York operations. New York corporate services business returned a profit in its third year of operations and the trust business has gained recognition in its local market.

A new bespoke IT system has been implemented in our commercial trusts business and it is in the process of being rolled out across our other activities so that we operate with a single database storing information on all our clients. Our pension trustee business is expecting the major new legislation due later in the year to provide further opportunities to grow the business. Corporate services continues to grow significantly and our service of process business has developed to provide virtually 24 hour a day cover throughout our geographic range. Treasury management has built an experienced team of investment professionals and is ready to increase business significantly by managing trust funds and providing escrow solutions. The results of our Hong Kong office have improved significantly following the restructuring in 2002 and we expect further opportunities to arise with the current rate of expansion in the Chinese economy.

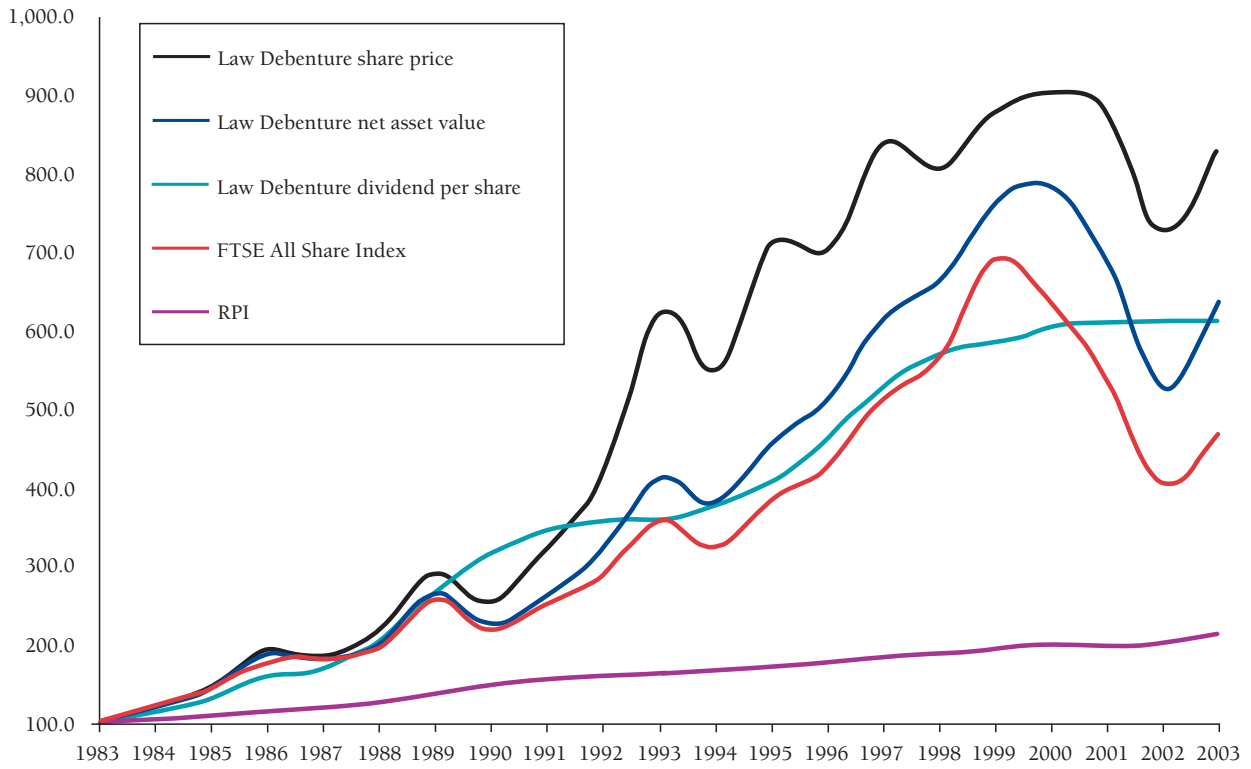
Overall our trustee and related services business is well placed for growth in 2004.

Staff

In spite of the changes made during the year the revenues and profits of the trustee and related services business have increased. These businesses make a valuable contribution to the return to shareholders; their success is dependent upon the professionalism and commitment of our people, whom I should like to thank for their efforts during the year.

Douglas McDougall

Performance graph



The Board

Douglas McDougall (59)

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 (50)

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 (60)

Non-executive director

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

Kenneth Inglis (60)

Senior non-executive director

Qualified as an actuary in 1966 becoming investment manager with Scottish Provident. Former Chairman of Allied Dunbar Asset Management and Fleming Investment Management. A director of ISIS Asset Management plc. Joined the board in 1995. Chairman of the audit committee and a member of the remuneration and nomination committees.

Robert Williams (55)

Part-time executive director

A former partner of Linklaters, specialising in international finance. A director of Edinburgh UK Smaller Companies Tracker Trust plc. Joined the board in 1993. Member of the LDC Trust Management Limited board.

Management team

Executive Management

Caroline Banzsky
Robert Williams

Commercial Trusts

Denyse Anderson	Katy LeGros
Julian Mason-Jebb	Stephen Norton
Richard Rance	Bill Rowland
Clive Rakestrow	

Treasury Management

Jennifer Gilbert

Pension Scheme Trusteeships

Eddie Thomas	Rodney Jagelman
Bruce McNess	Mike Leeson
Mark Ashworth	Antony Macwhinnie
Steve Balmont	Richard Main
David Barrow	Charles Morgan
John Bloxsome	Richard Thomas
David Felder	Robert Thomas

Corporate Services

Ian Bowden
Sharon Tyson

Service of Process

Anne Hills

Administration

Finance &
Information Technology
Tim Fullwood
David Evans
David Toombs

Compliance &
Company Secretarial
Ian Bowden
Adeyemi Johnson

Overseas offices

New York
Nancy Jo Kuenstner
Daniel Fisher

Hong Kong
Christina Lee

Jersey
John Honey

Investment manager's review

Economic and market review

The year began with fears that the global economic pick up could be floundering, but finished with most indicators suggesting global growth was robust. The combination of low interest rates, higher government spending and a natural cyclical pick up in activity is supporting the recovery. The major investment themes were recovery and dollar weakness. The most substantial gains in stocks and sectors were often in those areas that had seen the sharpest falls in the previous year. Those geographic areas that had suffered most in the bear market also enjoyed the greatest rebound. The long-predicted weakness of the dollar was a feature over the period. The twin US deficits of government borrowing and trade mean that the rest of the world needs to have an ongoing appetite for dollar debt. When this appetite was satisfied, the dollar fell. The knock-on effect for many UK companies is a reduction in the value of future reported profits for their American businesses. It also has an effect on Law Debenture's investment earnings as some of our largest holdings, such as BP, pay dollar dividends.

For much of the year, the economic recovery did not appear to be synchronised. US growth remained robust, fuelled by consumer demand, while the Far East economies were growing as China powered forwards. The UK, meanwhile, seemed to be faring better than Continental Europe, its major trading partner, where Germany was in recession. By the end of the year, however, there was some evidence in business confidence surveys to suggest that Germany was returning to growth. Investors had sensed this earlier in the year and European cyclical companies provided very good investment returns. The momentum that built in the global economy during 2003 has led to consensus forecasts for economic growth in 2004 being increased. GDP in the UK is expected to grow by 3% in 2004. Corporate profits are rising, which is stimulating capital investment, and commentators are suggesting that the economic pick up is self-sustaining. However, the more benign operating background brings with it higher interest rates. In the UK, there have been increases totalling 0.5% to 4.0%, and it is likely that US rates will start to move up in the second half of 2004.

Asset allocation and performance

Market	Law Debenture asset allocation		Total Return Performance (£)	
	31.12.02	31.12.03	Law Debenture	Relevant index*
	%	%	%	%
UK	71.8	70.5	19.6	20.9
Europe (ex UK)	14.6	12.5	26.4	29.8
North America	6.4	6.9	11.4	16.4
Japan	2.9	3.1	32.3	23.0
Pacific (ex Japan)	4.3	7.0	44.0	28.7

* UK: FTSE All Share. Europe: FTSE Europe (ex UK). North America: FTSE North America. Japan: FTSE Japan. Pacific: FTSE Pacific (ex Japan).
Overseas indices have been adjusted to reflect the impact of currency translation.
Source: WM

Our geographic diversification is driven by the desire to find good investment opportunities of a nature which we cannot find in the UK. During the year, the weighting in Pacific markets was increased. China is showing phenomenal growth, which is fuelling substantial industrial activity in the region. This expansion will not be matched in the UK, hence our increased exposure to the Pacific, even though there may be share price volatility in the short term. The weakness of the US dollar has significantly impacted the return from North America relative to the other markets.

Investment manager's review continued

United Kingdom

The UK economy grew 2.1 % in 2003, with inflation averaging below 2%. This was a satisfactory performance when compared to the UK's major trading partners in Continental Europe. The growth was fuelled by consumer spending, which was supported by confidence about future employment prospects and the effects of rising house prices on personal wealth. The consumer and increased government expenditure combined to ensure demand remained strong.

The new holdings added to the portfolio are not chosen on a macro-economic view. They are companies with improving businesses that, at the time of purchase, were on undemanding valuations. Examples of such purchases were McAlpine, Mersey Docks and Johnson Service Group. The profits and dividends are expected to grow for these companies as their operations are built around their core skills. The holdings in the two smaller insurers, Hiscox and Wellington, were increased, while the larger insurer RSA was sold as we think the two smaller companies will produce a better operating performance in coming years. A holding in EMI was built up as the problems it has faced are being slowly resolved. On the sales side, we reduced our holding in Persimmon. Overall, exposure to medium and smaller companies has been increased as more opportunities have been found in this area during the year.

Europe

European markets recovered well, rising by 29.8%. Survey evidence suggests, after a long wait, that the industrial core of Europe is beginning to move forward again. This is being achieved in spite of the strength of the euro against the US dollar.

Stable growth companies have lagged over the year, while recovery situations and financials have come to the fore. The entire holdings in Elixir and Sodexo, the two French-listed catering companies, have been sold as their growth prospects have reduced, while Dutch Telecom company KPN, with a large mobile operation in Germany, has been added to the list. It looks interesting from both a growth and valuation perspective compared to other European telecommunications businesses, where the Trust has only a low exposure.

North America

The S & P 500 Index rose 26.4% in dollar terms. However, due to the weakness of the US dollar, this translated into a return of 16.4% for sterling investors. As with other equity markets, the best performances came from medium and smaller companies, with technology stocks attracting investor support after the savage sell off in recent years.

The North American portfolio had been positioned in the large, high quality names. As the earnings background improved, smaller cyclical companies recorded the strongest performance and we were slow in rotating into these more 'economically leveraged' companies. This accounted for the portfolio lagging the index returns.

Peter Kaye has taken over the running of the North American portfolio. He has increased the holdings in companies where operational momentum is strong and market expectations remain too low going forward. For instance Alcan, the Canadian aluminium producer, has been purchased. It will benefit from the growing demand for aluminium and from the synergies to be extracted from its acquisitions in Pechiney. Sales have included Johnson & Johnson and Walmart, which are no longer growing as strongly as they did in the past, though the valuations do not reflect this change.

Investment manager's review continued

Japan

Exposure to Japan is achieved through the Henderson Japan Capital Growth Fund. The management fee is kept at the same level as it is for the direct holdings in other areas. After falling to twenty-year lows in the opening months of 2003, the Japanese market rebounded strongly. The TOPIX Index rose by 24.4% and the Fund was up by 32.3% over the year. The Japanese economy showed stronger growth than was expected. The Fund was well placed to benefit from this pick up.

Pacific

Pacific exposure through the Henderson Pacific Growth Fund allows us access to a broad portfolio of companies in the region and the fee arrangement is the same as for Japan. The managers reduced the Fund's exposure to Australia and built up holdings in Taiwan, which at the period end was 17% of the Fund, and Thailand, which represents 13% of the Fund. The key investment themes in the Fund are the emergence of China, the growth of outsourcing by major companies and increasing domestic demand within countries in the region. The Fund has performed well in relative and absolute terms. The region is expected to continue to benefit from the global acceleration in industrial production.

**James Henderson
Henderson Global Investors Limited**

Top 20 holdings by value

Rank	Company	2003		2002	
		Value £000	% of portfolio	% of portfolio	Rank
1.	Henderson Pacific Capital Growth ¹	19,435	6.93	4.30	2
2.	BP	11,778	4.20	4.96	1
3.	HSBC	9,675	3.45	2.89	4
4.	GlaxoSmithKline	9,344	3.33	3.75	3
5.	Henderson Japan Capital Growth ¹	8,795	3.13	2.86	5
6.	Shell Transport and Trading	8,310	2.96	2.82	6
7.	Royal Bank of Scotland	6,749	2.41	2.63	7
8.	Vodafone	5,540	1.97	1.95	8
9.	Barclays	4,983	1.78	1.66	10
10.	British American Tobacco	4,543	1.62	1.58	11
11.	HBOS	4,486	1.60	1.75	9
12.	Alfred McAlpine	4,414	1.57	–	–
13.	Lloyds TSB	4,032	1.44	1.38	15
14.	Diageo	3,528	1.26	1.39	14
15.	Nestlé	3,485	1.24	1.41	13
16.	Land Securities	3,274	1.17	1.12	17
17.	Tesco	3,093	1.10	0.92	21
18.	Reckitt Benckiser	2,781	0.99	1.14	16
19.	Unibail	2,619	0.93	0.95	20
20.	Hammerson	2,590	0.92	0.71	35
			<u>44.00</u>		

The top 20 individual holdings by value at 31 December 2002 accounted for 42.13% of the investment portfolio.

¹ Open ended investment companies

Classification of investments

based on market values at 31 December 2003

	United Kingdom %	North America %	Europe %	Japan %	Other Pacific %	Total 2003 £000	2003 %	Total 2002 £000	2002 %
Resources									
Mining.....	2.18					6,104	2.18	4,709	2.03
Oil & Gas	7.65	0.45	1.43			26,710	9.53	24,180	10.41
	7.65	0.45	1.43			32,814	11.71	28,889	12.44
Basic Industries									
Chemicals	1.11		0.35			4,082	1.46	2,971	1.29
Construction & Building Materials	4.85					13,637	4.85	8,584	3.68
Forestry & Paper.....	0.58					1,624	0.58	1,455	0.63
Steel & Other Metals	0.02	0.33				958	0.35	-	-
	6.56	0.33	0.35			20,301	7.24	13,010	5.60
General Industrials									
Aerospace & Defence	1.10					3,094	1.10	2,469	1.06
Electronic & Electrical Equipment.....	0.71	0.58	0.80			5,877	2.09	2,874	1.24
Engineering & Machinery	1.56	0.32	0.45			6,550	2.33	5,742	2.47
	3.37	0.90	1.25			15,521	5.52	11,085	4.77
Cyclical Consumer Goods									
Automobiles & Parts.....	0.38		0.39			2,157	0.77	1,189	0.51
Household Goods & Textiles		0.13				377	0.13	-	-
	0.38	0.13	0.39			2,534	0.90	1,189	0.51
Non-Cyclical Consumer Goods									
Beverages.....	2.24					6,272	2.24	7,593	3.27
Food Producers & Processors.....	1.38		1.24			7,377	2.62	7,182	3.09
Health	0.79	0.45	0.62			5,206	1.86	5,085	2.19
Personal Care & Household Products	0.99					2,781	0.99	2,651	1.14
Pharmaceuticals & Biotech.....	3.33	0.28	0.56			11,711	4.17	15,893	6.84
Tobacco	2.35					6,583	2.53	6,665	2.87
	11.08	0.73	2.42			39,930	14.23	45,069	19.40
Cyclical Services									
General Retailers.....	2.57	0.14				7,593	2.71	6,874	2.95
Leisure & Hotels.....	2.49	0.28			0.03	7,875	2.80	8,365	3.60
Media & Entertainment	3.15	0.27				9,598	3.42	5,471	2.35
Support Services	1.30	0.03	1.51			8,015	2.84	7,811	3.37
Transport	2.09	0.40	0.35			7,949	2.84	6,155	2.65
	11.60	1.12	1.86		0.03	41,030	14.61	34,676	14.92
Non Cyclical Services									
Food & Drug Retailers	1.10					3,093	1.10	2,504	1.08
Telecommunication Services.....	3.66	0.29	0.48			12,454	4.43	8,781	3.78
	4.76	0.29	0.48			15,547	5.53	11,285	4.86
Utilities									
Electricity	1.42					3,981	1.42	4,145	1.79
Utilities, Other	1.24					3,484	1.24	3,191	1.38
	2.66					7,465	2.66	7,336	3.17
Information Technology									
Information Technology Hardware.....		1.06				2,970	1.06	490	0.21
Software & Computer Services.....		0.65				1,816	0.65	1,317	0.57
		1.71				4,786	1.71	1,807	0.78
Financials									
Banks.....	12.41	0.88	1.73			42,091	15.02	32,658	14.07
Insurance.....	0.75	0.24				2,779	0.99	2,517	1.07
Life Assurance.....	3.18		1.06			11,886	4.24	10,748	4.62
Investment Companies	0.01			3.13	6.93	28,268	10.07	16,685	7.17
Real Estate.....	2.95		0.93			10,899	3.88	10,227	4.41
Speciality & Other Finance	0.93	0.12	0.64			4,722	1.69	5,132	2.21
	20.23	1.24	4.36	3.13	6.93	100,645	35.89	77,967	33.55
Total 2003	70.47	6.90	12.54	3.13	6.96	280,573	100.00		
Total 2002	71.84	6.39	14.57	2.86	4.34			232,313	100.00

(The above table excludes bank balances and short term deposits.)

Portfolio valuation

as at 31 December 2003

The number of investments has increased from 143 at 31 December 2002 to 146 at 31 December 2003. Those shown in italics are new holdings in the six months since 30 June 2003.

	£000	%		£000	%
Resources			Cyclical Consumer Goods		
Mining			Household Goods & Textiles		
Rio Tinto	2,160	0.77	<i>Mattel (USA)</i>	377	0.13
Anglo American.....	1,992	0.71	Non-Cyclical Consumer Goods		
BHP Billiton	1,952	0.70	Beverages		
Oil & Gas			Diageo	3,528	1.26
BP	11,778	4.20	Allied Domecq.....	1,421	0.51
Shell Transport & Trading.....	8,310	2.96	Scottish & Newcastle	1,323	0.47
Total.....	2,427	0.87	Food Producers & Processors		
IHC Caland (Neth).....	1,568	0.56	Nestlé (Switz)	3,485	1.24
BG	1,376	0.49	Unilever	2,395	0.85
Exxon Mobil (USA).....	1,251	0.45	Cadbury Schweppes	1,497	0.53
Basic Industries			Health		
Chemicals			Smith & Nephew.....	2,205	0.79
BOC	1,707	0.61	Fresenius (Ger)	1,743	0.62
ICI.....	1,393	0.50	<i>Guidant (USA)</i>	671	0.24
Bayer (Ger).....	982	0.35	<i>Abbott Laboratories (USA)</i>	587	0.21
Construction & Building Materials			Personal Care & Household Products		
Alfred McAlpine	4,414	1.57	Reckitt Benckiser	2,781	0.99
Wimpey (George).....	1,866	0.67	Pharmaceuticals & Biotech		
Hanson.....	1,846	0.66	GlaxoSmithKline	9,344	3.33
RMC	1,743	0.62	Novartis (Switz).....	1,572	0.56
BPB.....	1,388	0.49	Pfizer (USA).....	795	0.28
Wolseley.....	1,185	0.42	Tobacco		
Persimmon.....	1,074	0.38	British American Tobacco	4,543	1.62
Marshalls	121	0.04	Gallaher	2,040	0.73
Forestry & Paper			Cyclical Services		
David S. Smith.....	1,624	0.58	General Retailers		
Steel & Other Metals			GUS	2,321	0.83
Alcan (Canada)	916	0.33	Boots	1,658	0.59
Corus	42	0.02	Marks & Spencer	1,445	0.52
General Industrials			Dixons	945	0.34
Aerospace & Defence			W.H. Smith	827	0.29
Rolls Royce	1,772	0.63	CVS(USA)	397	0.14
Smiths.....	1,322	0.47	Leisure & Hotels		
Electronic & Electrical Equipment			Greene King.....	2,069	0.74
Philips (Neth)	2,251	0.80	Hilton.....	1,888	0.67
TT Electronics	1,917	0.68	Carnival	1,213	0.43
Tyco (USA)	962	0.34	Intercontinental Hotels	1,166	0.42
<i>Texas Instruments (USA)</i>	674	0.24	Carnival (USA)	804	0.28
Invensys.....	73	0.03	Mitchells & Butlers	350	0.12
Engineering & Machinery			Mytravel 5.75% Conv. Bond	254	0.09
Tomkins	1,605	0.57	Mytravel.....	48	0.02
Renold	1,422	0.51	Media & Entertainment		
Sandvik (Swed)	1,251	0.45	Reed Elsevier	2,056	0.73
Eaton (USA)	905	0.32	Johnston Press	1,863	0.66
Cookson	769	0.27	EMI	1,588	0.57
Morgan Crucible	598	0.21	BSkyB.....	1,406	0.50
Cyclical Consumer Goods			Reuters.....	1,293	0.46
Automobiles & Parts			Time Warner (USA).....	755	0.27
Volkswagen (Ger)	1,089	0.39	United Business Media	637	0.23
GKN.....	1,068	0.38			

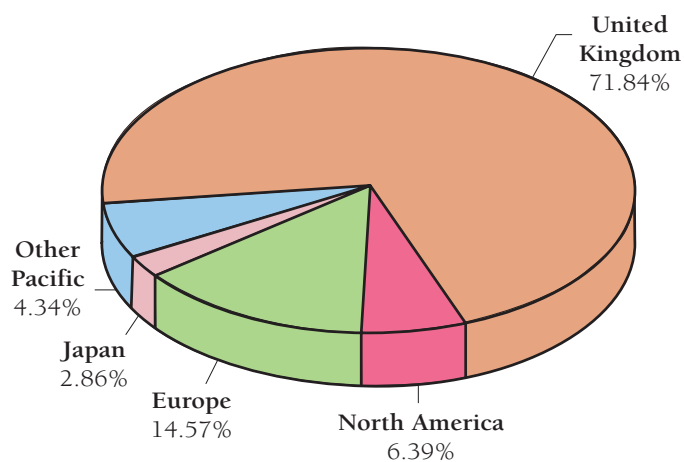
Portfolio valuation continued

	£000	%		£000	%
Support Services			Financials		
Johnson Service	1,805	0.64	Banks		
ISS International (Den)	1,708	0.61	HSBC	9,675	3.45
Deutsche Post (Ger)	1,356	0.48	Royal Bank of Scotland	6,749	2.41
TPG (Neth)	1,204	0.42	Barclays	4,983	1.78
Compass	1,026	0.36	HBOS	4,486	1.60
Rentokil	836	0.30	Lloyds TSB	4,032	1.44
Leach (USA)	80	0.03	ABN Amro (Neth)	1,935	0.69
Transport			BNP Paribas (Fra)	1,688	0.60
BAA	1,340	0.48	Citigroup (USA)	1,681	0.60
P & O	1,150	0.41	Standard Chartered	1,661	0.59
Fraport (Ger)	975	0.35	Alliance & Leicester	1,598	0.57
Exel	960	0.34	Abbey National	1,593	0.57
Wincanton	886	0.32	Fortis (Neth)	1,238	0.44
Avis Europe	846	0.30	Goldman Sachs (USA)	772	0.28
Mersey Docks & Harbour	663	0.24	Insurance		
Fedex (USA)	566	0.20	Wellington Underwriting	1,395	0.50
Sysco (USA)	563	0.20	Hiscox	715	0.25
Non-Cyclical Services			Marsh & McLennan (USA)	669	0.24
Food & Drug Retailers			Life Assurance		
Tesco	3,093	1.10	Aviva	2,010	0.72
Telecommunications Services			Legal & General	1,805	0.64
Vodafone	5,540	1.97	Prudential	1,795	0.64
BT	2,447	0.87	Aegon (Neth)	1,736	0.62
Colt Telecom 7.625% 15 Dec 2009 ..	1,412	0.50	Old Mutual	1,472	0.52
Colt Telecom 7.625% 31 Jul 2008 ..	910	0.32	Alleanza Assicurazioni (Ita)	1,223	0.44
Nextel Communications (USA)	815	0.29	Friends Provident	1,056	0.38
KPN (Neth)	776	0.28	Britannic	789	0.28
Hellenic Telecom (Greece)	554	0.20	Investment Companies		
Utilities			Henderson Pacific Capital Growth ..	19,435	6.93
Electricity			Henderson Japan Capital Growth ..	8,795	3.13
National Grid Transco	1,481	0.53	International Inc Fund	38	0.01
Scottish & Southern Energy	1,346	0.48	Real Estate		
Scottish Power	1,154	0.41	Land Securities	3,274	1.17
Utilities, Other			Unibail (Fra)	2,619	0.93
Severn Trent	1,723	0.61	Hammerson	2,590	0.92
United Utilities	1,313	0.47	Slough Estates	2,416	0.86
United Utilities A shares	448	0.16	Speciality & Other Finance		
Information Technology			Provident Financial	1,952	0.70
Information Technology Hardware			Deutsche Börse (Ger)	1,748	0.62
Cisco Systems (USA)	1,631	0.58	Amvescap	568	0.20
Hewlett-Packard (USA)	834	0.30	Charles Schwab (USA)	323	0.12
Apple Computer (USA)	505	0.18			
Software & Computer Services					
Microsoft (USA)	1,262	0.45			
Novell (USA)	554	0.20			

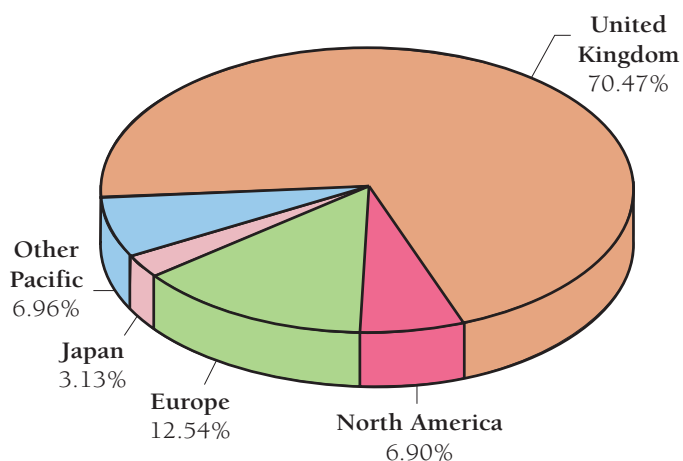
Changes in geographical distribution

	Valuation 31 Dec 2002 £000	Purchases £000	Sales proceeds £000	Appreciation £000	Investments 31 Dec 2003 £000
United Kingdom	166,839	23,150	(18,712)	26,463	197,740
North America.....	14,865	18,442	(15,582)	1,624	19,349
Europe.....	33,867	910	(5,943)	6,337	35,171
Japan.....	6,650	-	-	2,145	8,795
Other Pacific.....	10,092	3,816	-	5,610	19,518
	<u>232,313</u>	<u>46,318</u>	<u>(40,237)</u>	<u>42,179</u>	<u>280,573</u>

Geographical Distribution of Portfolio 2002

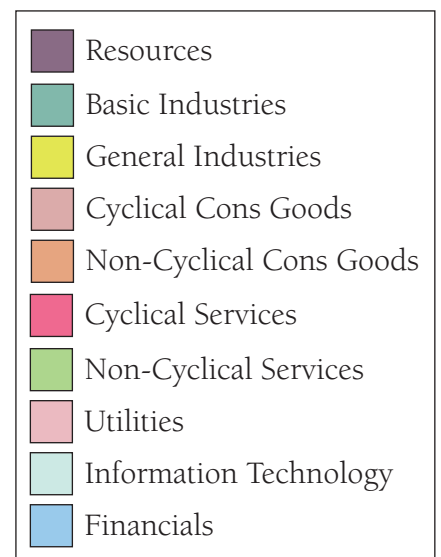
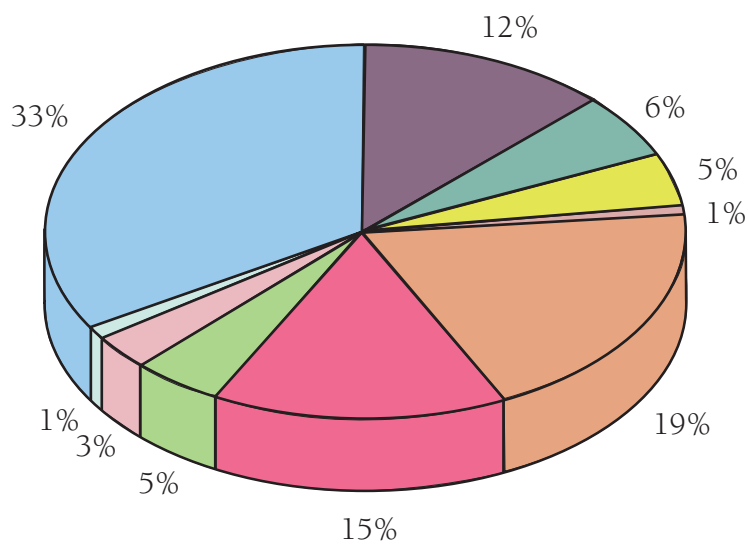


Geographical Distribution of Portfolio 2003

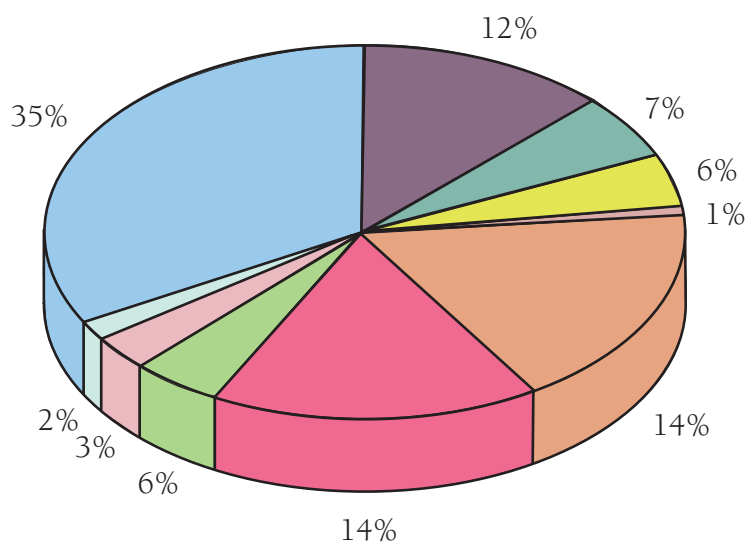


Sector analysis

Portfolio by sector - 2002



Portfolio by sector - 2003



Management review - Trustee and related services

Results

In spite of continuing challenging market conditions income increased in the year to 31 December by 5.9% to £13.5 million. Profit before tax for the year was £3.4 million, an increase of 5.0% over the previous year. This increase was after a number of one off costs and investment for the future. During the year we successfully restructured our commercial trusts business along product lines to provide better control of our activities and we incurred costs related to unrecovered expenses in respect of debt defaults in the Far East and South America. We continued to invest in our New York operations, which are beginning to gain recognition in their local market.

Commercial trusts

Commercial trusts is the largest contributor to income in our trustee and related services area. Commercial trusts has increased income in a year of significant change, with implementation of new IT systems, restructuring and the loss of an important client due to the client taking the work in-house. In the light of these changes we continue to diversify our services (particularly in the corporate finance area), but capital markets transactions continue to provide the bulk of our business.

In July, Law Debenture was selected to act as trustee by H.M Treasury on behalf of the UK Government of its US\$3bn fixed rate bond issue. This is the first time that the UK Government has appointed a trustee. Law Debenture was subsequently appointed as trustee of the Bank of England's Euro Medium Term Note (EMTN) Programme and the EMTN Programme for Ireland acting through its National Treasury Management Agency.

The convertible bond market was very busy in 2003. Law Debenture was appointed by many companies including 3i, EMI, Glencore, Hilton, LogicaCMG, Lonmin, the Spanish hotel group, Sol Meliá, SVB Holdings, the Italian telecoms provider, Tiscali and the mining company, Xstrata, as well as by a number of Japanese companies.

We have also been involved on a number of capital raising bond issues such as for Aviva, Friends Provident, HBOS, Prudential, Scottish Power (the innovative perpetual convertible bond issue) and for Standard Life.

Inevitably as trustee we will also be involved in a number of defaults (or potential defaults) and restructurings both here in the UK, such as British Energy and TXU, and overseas. Working closely with our legal and 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 in a timely fashion.

Pensions

The demand for professional trustees of pension schemes continued to grow last year. Law Debenture is well known and respected as the market leader in this area, but the nature and extent of our services are not always fully understood. We have launched several initiatives to make our services more widely known, and we shall continue our efforts to expand our presence in the domestic pensions market in 2004.

We are noticing a decline in appointments to schemes where the employer is insolvent, balanced by a growth in ongoing appointments as a trustee to pension schemes that are not being wound up. In late 2003, we were pleased to be appointed to a scheme by the pension regulator, OPRA.

Management review - Trustee and related services continued

Major pensions legislation is due in 2004. This will establish a new regulatory framework which we expect to be beneficial for our business. It is expected that the regulator will be given stronger powers and, in particular, that the power of appointment of an independent trustee to the pension scheme of a company that is insolvent will be transferred from the insolvency practitioner to the regulator.

The legislation will also introduce a new statutory insurance arrangement for pension schemes, the Pension Protection Fund, which will take over the liabilities and assets of under funded schemes of insolvent employers. It is too early to say how this will affect appointments, but we hope that it will provide further opportunities for us.

Our strategy is for steady and sustainable long term growth which will result from focus on the core pensions business in the UK. In the short term, we expect our business to be stable as we anticipate and respond to the effects of market, regulatory, and legislative changes.

In May, we were very saddened by the death of Andy Gibson who had been a widely respected member of the team since joining the Company in 1992.

Corporate services

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

The second income stream is the provision of corporate services (company secretary and corporate directors) to third parties, principally for the purposes of securitisations and corporate finance transactions. This business continues to grow significantly, both through working with our commercial trust business and in offering services independent of the trustee area. We have also developed a specialisation handling complex voting arrangements in merger situations.

Treasury management

Treasury Management provide cash investment and administration services in relation to trust and escrow arrangements. Treasury staff are experienced investment professionals specialising in the management of cash on a discretionary and non-discretionary basis. The investment role enhances returns on the more traditional trustee function where cash is received and paid once the required conditions have been met. Equally the department can simply track external transaction cash flows ensuring that the trustees' obligations are met as required.

Law Debenture offers its own dedicated AAA money market funds managed by Aim Global, providing competitive cash returns and well diversified portfolios in sterling, dollars or euros, enabling clients to link a cash investment to a trust or escrow function. We are well positioned to increase business further building on Law Debenture's unique position of independence and innovation to create customised commercial trust and escrow solutions.

Investor services

Enhanced software capabilities enable us to take on share savings schemes for third parties in addition to the administration of Law Debenture's Investment Trust Savings Scheme. The systems can also be adapted for similar activities, such as dividend payments and voting trusts.

Management review - Trustee and related services continued

Overseas

New York

Law Debenture Trust Company of New York completed its first full year of operations with 54 successor trustee appointments at year end in respect of issues totalling approximately \$20 billion and a growing book of escrow business. The Law Debenture name is now recognised within the market niche in the U.S. in which we operate: bankers, lawyers, consultants, trustees and judges involved in corporate bankruptcies. In 2004 we will focus on marketing and increasing our name recognition in other markets, e.g. U.S. high yield bonds, speciality corporate finance situations, multi-lateral agency financing, and property and liquidation escrows.

Law Debenture Corporate Services Inc. registered a profit in 2003, its third year of operation. We continue to grow revenues both through repeat business and by identifying new clients. Efficient service and personal relationships are key to success in this service of process business.

Hong Kong

There has been a significant improvement in the operating results of the Hong Kong office following the restructuring that took place towards the end of 2002. Expenditure has been reduced substantially whilst income continues to grow.

During 2003 Law Debenture Asia was appointed to act as trustee by Cheung Kong Bond Finance Limited in relation to its HKD10 billion Retail Note Issuance Programme. Cheung Kong Group is one of the largest conglomerates in Hong Kong and this programme was the first of its kind in Asia. New opportunities arose also from mainland China where the Hong Kong office was mandated to act on a voting trust for the Tsingtao Brewery Company Limited. We expect further opportunities to arise with the current rate of expansion in the Chinese economy. The commitment by the HKSAR government to develop Hong Kong's bond market further and the continuing improvement in general economic conditions in Asia provide a positive outlook for 2004.

Channel Islands

Law Debenture Channel Islands occupies a leading position as an independent service provider in the Channel Islands. It is now expanding into the complementary area of providing corporate services to Jersey registered companies and hopes to develop this business in 2004 alongside its more traditional commercial trust roles.

Cayman Islands

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

Directors' report

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2003. 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 2002, the latest year for which financial statements have been submitted. Such approval for the year ended 2002 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 s.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.

Revenue, dividends and reserves

The revenue return attributable to shareholders for the year ended 31 December 2003 was £8,073,000. The directors recommend a final dividend of 4.24p per share, which together with the interim dividend of 2.66p paid in September 2003, will produce a total of 6.90p (2002: 6.90p). The final dividend will be paid on 27 April 2004 to holders on the register on the record date of 12 March 2004. After deduction of dividends of £8,061,000 (2002: £8,073,000), consolidated revenue reserves increased by £12,000 (2002: a decrease of £671,000).

Directors

All the directors on page 7 held office throughout the year. In accordance with the articles of association, Mr D.C.P. McDougall and Mr R.J. Williams retire by rotation at the Annual General Meeting. Both offer themselves for re-election.

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	
	2003	2002
C.J. Banzky.....	11,657	4,934
A.C. Cates	35,107	35,004
J. Edwards*	12,500	12,500
K.W.B. Inglis	22,500	22,500
D.C.P. McDougall	410,000	410,000
R.J. Williams	78,039	61,983

No director has a beneficial interest in the shares of any subsidiary company. There has been no change in directors' interests since 31 December 2003, save for Mrs C.J. Banzky, who has acquired a further 825 shares and Mr R.J. Williams who has acquired a further 90 shares.

* Mr Edwards was a director until the AGM on 15 April 2003.

Directors' report continued

Regulatory compliance

The Corporation is subject to continuing obligations applicable to listed companies, overseen by the UK Listing Authority, which is a division of the Financial Services Authority ("FSA"). Most of Law Debenture's regulated activity is undertaken by Law Debenture Investment Management Limited, including the administration of the Group's share savings scheme. The directors receive periodic reports from the Compliance Officer about the conduct of the savings scheme and other regulatory matters.

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 only so long as Law Debenture is satisfied that management has in place adequate procedures to meet the standards of corporate governance laid down in the Combined Code on Corporate Governance (or equivalent for non-UK companies), and elsewhere.

The board determines the Corporation's investment strategy but does not issue express instructions to the investment manager about whether it should or should not invest in any particular share. Where Law Debenture believes that incumbent management is failing in its corporate governance duties, Law Debenture (or on its behalf, the Corporation's investment manager) may attempt to enter dialogue with the company concerned in an attempt to alter the management's position.

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

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

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

Repurchase of shares

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

Substantial shareholdings

As at 24 February 2004, the following shareholders have notified the Corporation of their interest in 3% or more of the issued share capital:

British Empire Securities & General Trust plc.....	6.34%
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The board is not aware of any other substantial holdings.

Directors' report continued

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, whether their shares are held directly or through nominees under one of the Corporation's investor schemes. Alternatively, if they so wish, shareholders may choose to receive communications in electronic form.

Employee participation

Employees are informed of the financial aspects of the Group's performance through periodic management meetings. Copies of the annual report and the interim statement are made available to all employees. Details of the general bonus scheme are contained in the remuneration report on page 28. The Corporation has since 1992 operated SAYE schemes in which all full-time employees are eligible to participate after completing a minimum service requirement. A new scheme was approved by the shareholders in 2002. Options outstanding under the SAYE schemes at 31 December 2003 were:

<u>Date of grant</u>	<u>Number of option holders</u>	<u>Shares under option</u>	<u>Exercise price</u>
10 May 1999	8	13,835	233.80p
23 May 2000	6	8,345	230.00p
24 May 2001	3	4,465	241.04p
4 July 2002	6	18,370	225.10p
2 July 2003	48	289,865	172.40p

It is essential to retain and incentivise key executives responsible for the trustee business. Since 1993, the Corporation has operated Executive Share Option Schemes, which enable these executives to be granted options to acquire shares in the Corporation. A new scheme was approved by shareholders in 2002. Options granted under the scheme are normally exercisable between the third and tenth anniversaries of the option grant date. For options granted from 1998 onwards, such exercise is contingent upon targets for the trustee business being achieved. 286,941 options were granted during 2003 and total options outstanding at 31 December 2003 were as follows:

<u>Date of grant</u>	<u>Number of option holders</u>	<u>Shares under option</u>	<u>Exercise price</u>
17 May 1994	1	50,000	148.4p
25 May 1995	3	125,000	162.6p
15 October 1996	1	12,500	193.0p
4 December 1998	21	645,000	212.1p
7 August 2001	34	1,555,080	245.8p
2 August 2002	1	31,205	211.5p
2 March 2003	24	278,169	174.2p

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

Directors' report continued

Investment management

Henderson Global Investors Limited is solely responsible for the management of the investment portfolio. Henderson is fully aware of the Corporation's investment strategy and provides a cost competitive service. Consequently the directors believe that the continuing appointment of Henderson is in the best interest 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 £453,000 (2002: £541,000) and are net of fees of 1% on our holdings in the Henderson Japanese and Pacific OEICs, which have been rebated to the Corporation. 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 557,601 shares in the Corporation at 31 December 2003.

Charitable donations

During the year the Corporation made charitable donations of £1,189 (2002; £1,743).

Payment of suppliers

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

Statement of directors' responsibilities in relation to the financial statements

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

In preparing the accounts on pages 35 to 54, the directors are required to select suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and state whether applicable accounting standards have been followed. They consider it appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the Group consist mainly of readily realisable securities.

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

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

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

Auditors

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

By order of the board

Law Debenture Corporate Services Limited
Secretary

24 February 2004

Corporate governance

The directors consider that during the year, the Group has complied with all the provisions of the Combined Code - Principles of Good Governance and Code of Best Practice. The Group's approach to these matters is set out below.

The board and committees

The board of the Corporation is comprised of a majority of non-executive directors and meets regularly throughout the year. The attendance records of the non-executive directors are set out at paragraph 8 of the remuneration report. The board has established Audit, Remuneration and Nomination Committees with specific terms of reference, the membership of which is shown on page 7. Matters specifically reserved for board decision have been defined and procedures put in place to enable independent professional advice to be taken by individual directors at the Corporation's expense.

Audit Committee and internal controls

The board monitors the effectiveness of internal controls in a number of ways, both directly through main board general reviews and also via the more specific work carried out for the Audit Committee. The various mechanisms can be summarised as follows:

- Board review of the Group's matrix of risks and controls
- An internal audit function which involves not only each business department being subject to audit on a regular basis but also regular reviews of other business wide processes
- Detailed testing by the Compliance Officer of all FSA regulated business systems and controls
- 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. They are designed to lead to a process of continuous improvement in systems and in the application of best practice.

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

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

- a regular qualitative self-assessment of the effectiveness of the individual controls maintained in the overall internal financial control framework
- preparation by management of a comprehensive and detailed budget system involving annual board approval and monthly comparison at board level of actual results with budgets and forecasts
- systematic reporting to the board of matters relating to insurance, pensions, taxation, accounting and cash management as well as legal, compliance and company secretarial issues

Corporate governance continued

- the review of the internal controls of those services, such as investment management, custody and registration, which have been delegated to third parties, such review being conducted during the initial contractual negotiation and on a regular basis
- 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
- frequent and detailed reports received about the trustee businesses, including reports (and attendance of board meetings from time to time) from the Managing Directors of overseas subsidiaries.

The systems of internal financial control are designed to provide reasonable but not absolute assurance against material misstatement 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 2003 and will be reviewed by the board on a regular basis.

Audit Committee

The Audit Committee met four times during 2003 and its current members (all non-executive directors) are Mr K.W.B. Inglis (Chairman), Mr A.C. Cates and Mr D.C.P. McDougall.

Remuneration Committee

The Committee met six times during 2003. The Committee's current members are Mr D.C.P. McDougall (Chairman), Mr A.C. Cates and Mr K.W.B. Inglis (all non-executive directors). The directors' remuneration report, which describes the Committee's work in more detail, commences on the opposite page.

Nomination Committee

The Committee met twice in 2003 to consider the composition of the board, potential new non-executive directors, and the requirements arising out of the Higgs and Smith reports. The Committee's current members are Mr D.C.P. McDougall (Chairman), Mr A.C. Cates and Mr K.W.B. Inglis (all non-executive directors).

Attendance Record

All members of the Audit, Remuneration and Nominations Committees attended all meetings throughout the year.

Remuneration report

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 2003. The report contains specific and detailed information about the way directors of the Corporation are remunerated, and the amounts they receive. Some of the information is historical, some forward looking. Those sections that have been audited in accordance with the Regulations are shown at the top of each relevant paragraph.

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

Douglas McDougall
Chairman, Remuneration Committee

Remuneration Committee - membership and advisers

The board has delegated responsibility for consideration of all matters relating to executive directors' remuneration to a Remuneration Committee. All of the members of the Committee are independent, non-executive directors, being at the date of this report Mr D.C.P. McDougall (Chairman), Mr A.C. Cates and Mr K.W.B. Inglis. Each of these served throughout the year to 31 December 2003. There were no other members of the Committee during this period.

The Committee met six times during the year. The Managing Director attended all meetings of the Committee at the invitation of the Chairman (although she was not present when details of her own remuneration were discussed) and Mr R.J. Williams, an executive director, attended one meeting at the invitation of the Chairman. The Managing Director, Mr Williams, 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. Independent Review Solutions were engaged to produce a benchmarking analysis of the non-executive directors' fees. No other work was undertaken for the Corporation by these external consultants, and the Committee did not engage any other third party to provide advice.

The Committee complies with the Principles of Good Governance and Code of Best Practice in the listing rules of the Financial Services Authority. 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 of the Corporation is to ensure that remuneration packages offered to executive directors and senior executives are competitive, and designed to attract, retain and motivate individuals of the 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;
- There should be a clear link between total remuneration and performance.

The major components of Law Debenture's remuneration packages for executive directors and senior executives comprise: basic salary; general bonus scheme which may be invested in a Share Incentive Plan (subject to certain limits), calculated by reference to the success of the Corporation's trustee and related businesses; executive share options, granted periodically and phased in over a period of years, with demanding performance criteria set by the Remuneration Committee; discretionary bonus based upon trustee and related business performance and the attainment of personal targets; pensions provision in a funded non-contributory, Inland Revenue approved, final salary occupational pension scheme; and participation in a Sharesave Scheme. Details of the policy applied in each component are outlined below. These apply to the executive directors only. Non-executive directors receive fees as described at paragraphs 8 and 10, but do not receive any other benefits.

The executive directors during the period of this report were:

- Mrs C.J. Banzky (Managing Director);
- Mr R.J. Williams (part time executive director).

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

1. Basic salary

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

The Managing Director also received a non-pensionable cash payment in the form of a car allowance. This is included within salary/fees at paragraph 10. Non-cash benefits include private health cover, life insurance cover and the Disability Income Plan. The estimated money value of these components is set out in the table at paragraph 10.

2. General bonus scheme

Mr Williams participates in the Corporation's general bonus scheme on the same basis that applies to all members of staff. A cash payment will be made in April 2004 in respect of performance of the trustee and related businesses in 2003. The amount of the payment is not guaranteed from year to year and will be calculated by reference to a number of factors relating to the trustee and related businesses, including profitability and the growth in profits. The bonus is paid as a percentage of basic salary, and all qualified employees receive a bonus calculated at the same percentage. In 2004, the general bonus scheme payments to Mr Williams (and to all other members of staff) will be 6% of basic salary. There are no performance conditions specific to any individual in order to qualify for receipt of a general bonus payment, although certain qualification conditions do apply. In particular a participant must have been employed for at least three months at the close of the financial year. He/she will receive a pro-rated payment for the period that he/she was employed during the year, if more than three months but less than twelve. Entitlement to the payment will be withdrawn if the participant is not employed as at 24 March 2004. Participants are entitled to place all or part of their general bonus scheme payment into an Inland Revenue approved Share Incentive Plan.

Mrs Banzky is not a participant in the Scheme.

3. Executive share options

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

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

- Options granted in 2002
Options were granted to Mrs Banzsky in 2002. These are exercisable from 2 August 2007, but only if the profits of the trustee and related services of the Corporation and its subsidiaries grow at an annual compound rate of 4% plus inflation over the five years ending 31 December 2006. The 'profits of the trustee and related services' mean the amount shown as such in the notes to the Corporation's consolidated accounts. If this condition is not met in the year ending 31 December 2006, it will be successively re-tested at the end of the next two years as necessary, applying the compound rate to the extended period. If the condition is still not met following re-testing, the options lapse.
- Options granted in 2003
Options were granted to Mrs Banzsky 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).

No executive director has a contractual entitlement to receive a grant of executive share options in any given year, so it will be at the discretion of the Remuneration Committee as to whether or not grants of options are made under the Executive Share Option Scheme during 2004. Should a grant be made, then performance conditions will be set which are no less challenging than those attaching to the grant of options in 2002 and 2003.

No options on shares have been granted to Mr Williams under the Executive Share Option Scheme.

4. Senior Executive Discretionary Bonus Scheme

Mr Williams and Mrs Banzsky are entitled to receive discretionary bonuses (incentive payments) in 2004 at whatever time and of whatever amount the Remuneration Committee decides is appropriate in its sole and absolute discretion in respect of their performance in 2003. These payments will be made in March 2004 and are £55,000 for Mrs Banzsky and £4,000 for Mr Williams. In assessing what bonus or incentive payment should be awarded, account is taken of any factors that the Remuneration Committee reasonably consider appropriate, including the financial performance and position of the company and performance against any objectives that have been set. There is no contractual entitlement that says an incentive payment must be paid in any given year. Entitlement is lost if, on the date that incentive payments are paid, a participant is no longer employed by the Corporation, or either the participant or the Corporation has served notice to terminate employment. Incentive payments are not taken into account in calculating pension contributions. The discretionary bonus payment received in 2003 by Mr Williams was £4,000, which together with his general bonus, gave him a total bonus of £8,276. The discretionary bonus received by Mrs Banzsky was £55,000 in 2003. Up to the allowable limit, her bonus of £55,000 in respect of 2003 and payable in 2004, will be eligible to be placed in the Share Incentive Plan.

5. Save As You Earn (SAYE) Sharesave Plan 2002 (“the Scheme”)

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

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

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

6. Pensions provision

Mrs Banzky is a member of the Corporation’s funded non-contributory, Inland Revenue approved, final salary occupational scheme. Details of her membership of the scheme are contained in the table at paragraph 11. The rules relating to the earnings cap (currently £99,000 per annum) mean that Law Debenture has to restrict the pension benefit payable to the Managing Director. Pursuant to her service contract and as compensation for the effect of this restriction, the Corporation pays the Managing Director a cash non-pensionable amount equal to 20% of the difference between (i) her base salary and (ii) the Inland Revenue permitted maximum for the time being. This amount is paid monthly in arrear accruing from day to day after the deduction of income tax and national insurance.

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

7. Service contracts

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

	Date of Contract	Notice Period
Mrs C.J. Banzky	9 November 2001	6 months
Mr R.J. Williams	26 February 2002	6 months

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

In the event that the Corporation gives the Managing Director notice to terminate employment within twelve months of any change in control of the company, the company must give 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 a single, flat fee for their services in 2003, as set out in paragraph 10. They may also reclaim travelling expenses.

The fee for the Chairman reflects the additional responsibility and time commitment required of him; the fees for Mr Edwards and Mr Cates reflect the fact that they were also Chairman of L.D.C. Trust Management Limited (up to, and after, 15 April respectively), the principal management company overseeing the trustee and related businesses.

The fees are reviewed by the board, on advice from the executive directors, who from time to time undertake comparative studies to ensure that the Corporation's fee levels are consistent with the marketplace. The fees were reviewed in December 2003. Following the review, fees were amended with effect from 1 January 2004, and will from that date be 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 is as follows:

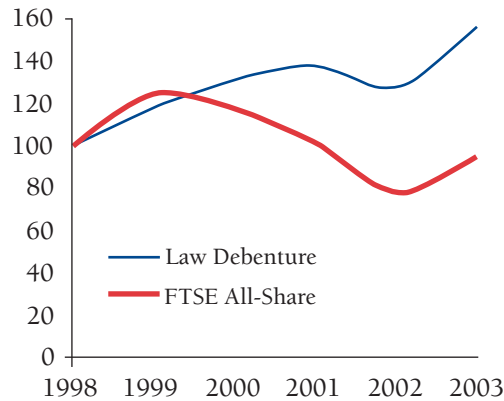
Number of board meetings attended in 2003

Mr D.C.P. McDougall	8/9
Mr A.C. Cates	9/9
Mr J. Edwards*	2/3
Mr K.W.B. Inglis	9/9

* Mr Edwards ceased to be a director on 15 April 2003

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 and subject to compulsory retirement (with no re-election) at the AGM following their 65th birthday. 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.

10. Directors' emoluments (audited)

	Total salary/ fees	Total bonus	Expenses allowance chargeable to tax	Benefits other than in cash	Total received in 2003	Total received in 2002
	£	£	£	£	£	£
Mrs C.J. Banzky	253,990	55,000	–	449	309,439	236,315*
Mr A.C. Cates	28,749	–	–	–	28,749	25,196
Mr J. Edwards**	10,000	–	–	–	10,000	30,163
Mr K.W.B Inglis	25,000	–	–	–	25,000	25,163
Mr D.C.P. McDougall	45,000	–	–	–	45,000	45,191
Mr R.J. Williams	65,635	7,358	–	1,555	74,548	73,309

Notes

1. *The data for Mrs Banzky reflects that she was a director for 11 months in 2002.
2. **The data for Mr Edwards covers the period until he ceased to be a director on 15 April 2003.
3. No director received compensation for loss of office, or any other payments in connection with the termination of qualifying services.
4. Benefits other than in cash are: private health cover (Mr Williams only); life assurance and Disability Income Plan (Mrs Banzky only).
5. Total salary/fees for Mrs Banzky comprises basic salary plus non-pensionable cash allowance (£33,990) as set out in paragraphs 1 and 6.
6. No compensation or fee was paid to any individual who had previously been a director.

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

	Increase in accrued pension during 2003	Accumulated total accrued pension at 31 December 2003	Transfer value as at 31 December 2002	Transfer value as at 31 December 2003	Increase in transfer value
	£pa	£pa	£000	£000	£000
C.J. Banzsky	1,637	3,163	14	32	18

1. The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 2003
2. The increase in accrued pension during the year includes any increase for inflation
3. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11
4. Any Additional Voluntary Contributions (“AVCs”) are excluded from the above table. Mrs Banzsky made no AVCs during the year.
5. No previous directors are, or have been, in receipt of any excess retirement benefits

12. Executive Share Option Scheme (audited)

	Interest at 31.12.02	Granted in 2003	Exercised in 2003	Interest as at 31.12.03	Exercise price	Earliest exercise	Latest exercise
C.J. Banzsky							
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

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 192.5p: the highest price during the year was 233.0p the lowest price was 163.5p.

13. Save As You Earn Share Save Plan (audited)

	Interest at 31.12.02	Interest acquired in 2003	Exercise price	Market price at invitation date	Exercised* in 2003	Interest at 31.12.03	Earliest exercise	Latest exercise
C.J. Banzsky	7,350	9,237	172.40p	204.75p	–	9,237	01.08.08	01.02.09
R.J. Williams	7,335	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.

*Before the 2003 invitation, Mrs Banzsky and Mr Williams cancelled 7,350 and 7,335 options granted in previous years, receiving a rebate of their savings to that point.

Independent auditors' report

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

We have audited the financial statements of The Law Debenture Corporation p.l.c. for the year ended 31 December 2003 which comprise the statement of total return, the balance sheets, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the 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 auditor's 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 United Kingdom Accounting Standards are set out in the statement of directors' responsibilities.

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

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

We review whether the corporate governance statement reflects the Corporation's compliance with the seven provisions of the 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. This other information comprises the chairman's statement, the operating reviews, the directors' report, the corporate governance report and the unaudited part of the directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Corporation and the Group at 31 December 2003 and of the total return of the Group for the year then ended; and 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.

Consolidated statement of total return

for the year ended 31 December

	Notes	2003			2002		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Total capital gains/(losses) from investments ..	2	–	41,945	41,945	–	(60,161)	(60,161)
Income from investments and deposits	3	9,475	–	9,475	9,287	–	9,287
Trustee and related services income	4	13,517	–	13,517	12,766	–	12,766
Underwriting commission and other income		187	–	187	217	–	217
Gross revenue and capital gains/losses		23,179	41,945	65,124	22,270	(60,161)	(37,891)
Administrative expenses	5	(11,932)	–	(11,932)	(11,331)	–	(11,331)
Return, including profit on ordinary activities before interest payable and taxation		11,247	41,945	53,192	10,939	(60,161)	(49,222)
Interest payable	7	(2,456)	–	(2,456)	(2,451)	–	(2,451)
Return, including profit on ordinary activities before taxation	8	8,791	41,945	50,736	8,488	(60,161)	(51,673)
Taxation	9	(718)	–	(718)	(1,086)	–	(1,086)
Return, including profit attributable to shareholders		8,073	41,945	50,018	7,402	(60,161)	(52,759)
Dividends	10	(8,061)	–	(8,061)	(8,073)	–	(8,073)
Transfer (from)/to reserves		12	41,945	41,957	(671)	(60,161)	(60,832)
Return per share (pence)*	11	6.91	35.91	42.82	6.33	(51.41)	(45.08)

Statement of total recognised gains and losses

for the year ended 31 December

		2003			2002		
		Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Return for the financial year		8,073	41,945	50,018	7,402	(60,161)	(52,759)
Foreign exchange	20	–	(240)	(240)	–	(306)	(306)
Total gains and losses relating to the year		8,073	41,705	49,778	7,402	(60,467)	(53,065)

Notes

The revenue columns of this statement represent the profit and loss accounts of the Group

* No dilutive effect

Balance sheet

as at 31 December

	Notes	Group		Corporation	
		2003 £000	2002 £000	2003 £000	2002 £000
Fixed assets					
Tangible	12	1,327	1,264	–	–
Investments	13	281,140	232,313	276,014	228,909
		<u>282,467</u>	<u>233,577</u>	<u>276,014</u>	<u>228,909</u>
Current assets					
Debtors	14	8,461	8,997	5,660	4,952
Short term cash investments		3,167	10,490	289	2,209
Bank balances and short term deposits		11,099	9,013	50	1,247
		<u>22,727</u>	<u>28,500</u>	<u>5,999</u>	<u>8,408</u>
Creditors					
Amounts falling due within one year	15	(14,516)	(13,860)	(54,923)	(51,193)
Net current assets/(liabilities)		<u>8,211</u>	<u>14,640</u>	<u>(48,924)</u>	<u>(42,785)</u>
Total assets less current liabilities		290,678	248,217	227,090	186,124
Creditors					
Amounts falling due after more than one year	16	(48,914)	(48,586)	(321)	(498)
Provision for liabilities and charges	17	(77)	(63)	–	–
Net assets		<u>241,687</u>	<u>199,568</u>	<u>226,769</u>	<u>185,626</u>
Capital and reserves					
Called-up share capital	18	5,862	5,851	5,862	5,851
Share capital redemption reserve		8	8	8	8
Share premium account	19	6,532	6,141	6,532	6,141
Capital reserves - realised	20	167,792	168,080	167,909	168,213
Capital reserves - unrealised	20	46,756	4,763	43,161	2,059
Revenue reserves	21	14,737	14,725	3,297	3,354
Shareholders' funds - equity	25	<u>241,687</u>	<u>199,568</u>	<u>226,769</u>	<u>185,626</u>

Approved by the board on 24 February 2004
and signed on its behalf by

D.C.P. McDougall }
C.J. Banzky }

The attached notes form part of these accounts.

Group cash flow statement

for the year ended 31 December

	Notes	2003		2002	
		£000	£000	£000	£000
Net cash inflow from operating activities	23		12,674		11,209
Servicing of finance					
Debenture interest paid		(2,450)		(2,450)	
Bank interest paid		(6)		(1)	
			(2,456)		(2,451)
Taxation			(510)		(917)
Financial investment					
Purchase of own shares		(567)		–	
Purchase of investments		(46,318)		(55,898)	
Sale of investments		40,237		54,834	
			(6,648)		(1,064)
Capital expenditure					
Purchase		(334)		(305)	
Sale		–		1	
			(334)		(304)
Equity dividends paid			(8,066)		(8,063)
Management of liquid resources					
Cash withdrawn from short term deposits.....			7,323		2,813
Financing					
Proceeds of increase in share capital.....		402		387	
Cash inflow from debt repayment.....		–		542	
			402		929
Increase in cash			2,385		2,152
Reconciliation of the movement in net debt					
Increase in cash as above.....			2,385		2,152
Cash outflow from liquid resources			(7,323)		(2,813)
			(4,938)		(661)
Exchange movements			(242)		(112)
Amortisation of debenture costs.....			(27)		(27)
Net debt brought forward.....			(19,704)		(18,904)
Net debt carried forward	24		(24,911)		(19,704)

Notes to the accounts

1 Statement of accounting policies

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

(ii) Basis of consolidation: The Group financial statements incorporate the financial statements of The Law Debenture Corporation p.l.c. and its subsidiaries made up to the end of the financial year.

(iii) Recognition of income and expenses:

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

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

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

Leasehold improvementsover the lease period
Office furniture and equipment3 – 10 years

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

(vi) Unlisted investments: Unlisted investments are valued by the directors at cost or, where appropriate, at directors’ valuation.

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

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

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

(x) Operating leases: Rentals under operating leases are charged on a straight line basis over the life of the lease term.

(xi) Financial instruments: In accordance with FRS4 “Capital Instruments”, long term borrowings are stated at the amount of net proceeds immediately after issue. The finance costs on such borrowings, being the difference between the net proceeds of a borrowing and the total payments that may be required in respect of that borrowing, are allocated to periods over the term of the debt at a constant rate on the carrying amount.

Notes to the accounts continued

1 Statement of accounting policies continued

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

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

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

2 Total capital gains/(losses) from investments

	2003 £000	2002 £000
Realised losses based on historical cost.....	(171)	(1,844)
Amounts recognised as unrealised in previous years.....	1,794	(3,306)
Realised gains/(losses) based on carrying value at previous balance sheet date.....	1,623	(5,150)
Unrealised profits/(losses) on investments.....	40,556	(54,865)
	42,179	(60,015)
Transfers to revenue.....	(234)	(146)
	<u>41,945</u>	<u>(60,161)</u>

3 Income from investments and deposits

	2003	2002
	Total £000	Total £000
UK		
Listed dividends		
Dividend income.....	7,083	6,633
Special dividends	150	149
Interest	786	855
	<u>8,019</u>	<u>7,637</u>
Overseas		
Dividends	1,431	1,622
Interest	25	28
	<u>1,456</u>	<u>1,650</u>
Total	<u>9,475</u>	<u>9,287</u>

Notes to the accounts continued

4 Trustee and related services income

	2003 £000	2002 £000
Geographical analysis by location of client		
United Kingdom	7,292	6,598
Overseas	6,225	6,168
	<u>13,517</u>	<u>12,766</u>

5 Administrative expenses

	2003 £000	2002 £000
Administrative expenses include:		
Salaries and directors' fees	5,772	5,423
Social security costs	486	487
Other pension costs	1,133	974
Investment management fee	453	541
Depreciation	270	226
Office rent	1,082	1,037
Auditors' remuneration*	74	65

*(including the Corporation £12,300 (2002: £13,000))

During the year, the Corporation employed an average of 79 staff (2002: 75). All staff are engaged in the provision of trustee and related services. Salaries and directors' fees includes redundancy and other related payments of £334,000 (2002: £117,000).

Other fees paid to the auditors during the year amounted to £51,000 (2002: £50,900) in respect of taxation and other regulatory services. These figures do not include fees receivable by the auditors for work undertaken by them in connection with trusts (for example, pension funds) of which a member of the Group acts as trustee and whose trust deed requires or permits professional advice to be obtained or audits to be undertaken. These figures do include fees for audits of certain trusts of which a member of the Group is a trustee, where the trustee has voluntarily commissioned an audit.

Notes to the accounts *continued*

6 Remuneration of directors

	2003 £000	2002 £000
Directors' emoluments, which comprise the following, are included in administrative expenses:		
Directors' fees.....	144	125
Management remuneration.....	385	427
	<u>529</u>	<u>552</u>

The emoluments of the highest paid director totalled £327,000 (2002: £305,000) and included pension contributions of £18,000 (2002: £14,000) and amounts accrued under the terms of the employee bonus plan of £55,000 (2002: £55,000). Her accrued pension entitlement is as follows:

	£000
Increase during 2003 including inflation increase.....	<u>2</u>
Accumulated total accrued pension at 31 December 2003	<u>3</u>
Transfer value of increase in accrued pension based on actuarial advice.....	<u>18</u>

Annual pension entitlements shown above are based upon service up to 31 December 2003 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 27.

7 Interest payable

	2003 £000	2002 £000
Interest on debenture stock.....	2,450	2,450
Interest on multi-currency bank loans.....	4	–
Interest on bank overdrafts.....	2	1
	<u>2,456</u>	<u>2,451</u>

Notes to the accounts *continued*

8 Return, including profit on ordinary activities before taxation

The return, including profit on ordinary activities before taxation, comprises the following profit before tax for the investment trust and trustee services activities:

	2003 £000	2002 £000
Investment trust.....	5,428	5,286
Trustee and related services.....	3,363	3,202
	<u>8,791</u>	<u>8,488</u>

9 Taxation

	2003 £000	2002 £000
Taxation, based on revenue for the year, comprises:		
UK corporation tax at 30% (2002: 30%).....	499	547
Adjustment in respect of prior years	42	34
	541	581
Overseas tax:		
Current tax on income for the year	189	246
Adjustments in respect of prior periods	(26)	246
Total current tax charge.....	704	1,073
Deferred tax	14	13
	<u>718</u>	<u>1,086</u>
Return on ordinary activities before tax.....	8,791	8,488
Tax on ordinary activities at standard rate 30%.....	2,637	2,546
Effects of:		
Expenses not deductible for tax purposes.....	24	25
Capital allowances in period in excess of depreciation.....	(19)	(15)
Tax credit on dividend income.....	(2,138)	(2,036)
Adjustments in respect of prior periods.....	42	280
Unrelieved withholding tax	132	143
Payment/(recovery) of overseas tax.....	(26)	42
Losses on overseas companies for which no tax relief arises.....	104	105
Other differences.....	(38)	(4)
	<u>718</u>	<u>1,086</u>

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.

Notes to the accounts continued

10 Dividends on ordinary shares

	2003 £000	2002 £000
Dividends on shares comprise the following:		
Interim 2.66p (2002: 2.66p)	3,105	3,111
Proposed final 4.24p (2002: 4.24p)	4,956	4,962
Total for the year 6.90p (2002: 6.90p)	<u>8,061</u>	<u>8,073</u>

Dividends have been waived in respect of the 316,128 shares owned by the Employee Share Ownership Trust (ESOT) (see Note 13).

11 Return per share

Revenue return, including profit per share, is based on profits attributable of £8,073,000 (2002: £7,402,000).

Capital return per share is based on net capital gain for the year of £41,945,000 (2002 loss: £60,161,000).

The calculations of both revenue and capital returns per share are based on 116,808,844* (2002: 116,897,823) shares, being the weighted average number of shares in issue during the year. Diluted revenue and capital returns per share are calculated using 116,903,147* (2002: 117,005,818) 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.

* After adjusting for shares owned by the ESOT.

12 Tangible fixed assets

	Group		
	Leasehold improvements £000	Office furniture & equipment £000	Total £000
Cost			
At 1 January 2003	736	1,072	1,808
Additions at cost	11	323	334
Disposals at cost	–	(5)	(5)
At 31 December 2003	<u>747</u>	<u>1,390</u>	<u>2,137</u>
Accumulated depreciation			
At 1 January 2003	99	446	545
Provision for the year	46	224	270
Disposals	–	(5)	(5)
At 31 December 2003	<u>145</u>	<u>665</u>	<u>810</u>
Net book value at 31 December 2003	<u>602</u>	<u>725</u>	<u>1,327</u>
Net book value at 31 December 2002	<u>638</u>	<u>626</u>	<u>1,264</u>

The Corporation holds no intangible fixed assets.

Notes to the accounts *continued*

13 Investments

	Group		Corporation	
	2003 £000	2002 £000	2003 £000	2002 £000
Summary				
Listed on recognised stock exchanges at market value:				
In United Kingdom	197,651	166,776	193,217	163,480
Overseas	54,397	48,600	54,397	48,600
	<u>252,048</u>	<u>215,376</u>	<u>247,614</u>	<u>212,080</u>
Open ended investment companies	28,230	16,650	28,230	16,650
Unlisted at directors' valuation	295	287	80	89
	<u>280,573</u>	<u>232,313</u>	<u>275,924</u>	<u>228,819</u>
Own shares (listed) at cost	567	–	–	–
Shares in subsidiary undertakings at cost	–	–	90	90
Total investments	<u>281,140</u>	<u>232,313</u>	<u>276,014</u>	<u>228,909</u>
	Group £000		Corporation £000	
Changes in investments - portfolio				
Market value of investments at 1 January 2003	232,313		228,819	
Unrealised net appreciation at 1 January 2003	(5,619)		(2,257)	
Cost of investments at 1 January 2003	226,694		226,562	
Additions at cost	46,318		46,292	
Disposals at cost	(40,408)		(40,408)	
Cost of investments at 31 December 2003	232,604		232,446	
Unrealised net appreciation at 31 December 2003	47,969		43,478	
Market value of investments at 31 December 2003	<u>280,573</u>		<u>275,924</u>	

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 a fee of £187,000 (2002: £183,000) in respect of these undertakings.

There were no amounts outstanding with these undertakings at the year end (2002: £Nil)

Own shares

The own shares represents the cost of 316,128 ordinary shares of 5p each in the Corporation, acquired during the year 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 2003 was £701,000.

Notes to the accounts *continued*

13 Investments *continued*

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

L.D.C. Trust Management Limited

†Law Debenture Corporate Services Limited

†Law Debenture Corporate Services Inc (Incorporated in New York)

†Law Debenture Finance p.l.c.

†Law Debenture Guarantee Limited

†Law Debenture Holding Inc. (Incorporated in New York)

†Law Debenture Investment Management Limited

†Law Debenture Trust (Asia) Limited (incorporated in Hong Kong)

†Law Debenture Trust Corporation of New York (Incorporated in New York)

†Law Debenture Trustees Limited

†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 Debtors

	Group		Corporation	
	2003 £000	2002 £000	2003 £000	2002 £000
(a) Due within one year:				
Corporation and other taxes recoverable	295	614	–	319
Amounts due from subsidiary undertakings	–	–	3,350	2,700
Investments sold for future settlement	–	59	–	–
Trustee expenses recoverable	2,504	2,390	3	87
Prepayments and accrued income	5,034	5,234	1,165	1,322
Other debtors	617	689	1,133	513
	<u>8,450</u>	<u>8,986</u>	<u>5,651</u>	<u>4,941</u>
(b) Due after more than one year:				
Prepayments	11	11	9	11
	<u>8,461</u>	<u>8,997</u>	<u>5,660</u>	<u>4,952</u>

Notes to the accounts *continued*

15 Creditors: amounts falling due within one year

	Group		Corporation	
	2003 £000	2002 £000	2003 £000	2002 £000
Borrowings (Note 26)	–	57	–	–
Amounts owed to subsidiary undertakings	–	–	48,869	45,127
Corporation tax	202	364	–	–
Other taxation including social security costs	181	307	178	307
Trustee expenses payable	2,863	2,566	–	59
Accruals	958	836	898	705
Deferred income	4,250	3,871	14	15
Proposed final dividend	4,957	4,962	4,957	4,962
Other creditors	1,105	897	7	18
	<u>14,516</u>	<u>13,860</u>	<u>54,923</u>	<u>51,193</u>

16 Creditors: amounts falling due after more than one year

	Group		Corporation	
	2003 £000	2002 £000	2003 £000	2002 £000
Borrowings (Note 26)	39,176	39,150	–	–
Deferred income	9,738	9,436	321	498
	<u>48,914</u>	<u>48,586</u>	<u>321</u>	<u>498</u>

17 Provision for liabilities and charges

	Group		Corporation	
	2003 £000	2003 £000	2003 £000	2002 £000
Deferred tax				
At 1 January	63	50	–	–
Charge in year	14	13	–	–
At 31 December	<u>77</u>	<u>63</u>	<u>–</u>	<u>–</u>

Notes to the accounts continued

18 Share capital

	2003 £000	2002 £000
Authorised share capital		
133,000,000 ordinary shares of 5p each.....	6,650	6,650
	<u>6,650</u>	<u>6,650</u>
Allotted, issued and fully paid share capital		
117,249,585 (2002: 117,021,660) ordinary shares of 5p each	5,862	5,851
	<u>5,862</u>	<u>5,851</u>

During the year to 31 December 2003, 227,925 shares were allotted under the SAYE Scheme and Executive Share Option Scheme for a total consideration of £402,802 which includes a premium of £391,407.

During the year, 299,102 options were granted under the Corporation's SAYE scheme and 293,695 under the Executive Share Option Scheme. At 31 December 2003, options under the schemes exercisable from 2004 to 2011 at prices ranging from 148.4p to 245.8p per share were outstanding in respect of 3,038,588 ordinary shares (2002: 3,505,615). During 2003, 823,127 options lapsed or were cancelled (2002: 12,500).

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

19 Share premium account

	2003 £000	2002 £000
At 1 January 2003.....	6,141	5,765
Issue of shares.....	391	376
At 31 December 2003	<u>6,532</u>	<u>6,141</u>

Notes to the accounts *continued*

20 Capital reserves

	Unrealised appreciation £000	Realised reserves £000	Total £000
Group			
At 1 January 2003	4,763	168,080	172,843
Transfer on disposal of investments.....	1,795	(1,795)	–
Net gains on investments.....	40,556	1,623	42,179
Net losses on currency translation.....	(240)	–	(240)
Transfers to revenue	(118)	(116)	(234)
At 31 December 2003	<u>46,756</u>	<u>167,792</u>	<u>214,548</u>
Corporation			
At 1 January 2003	2,060	168,213	170,273
Transfer on disposal of investments.....	1,795	(1,795)	–
Net gains on investments.....	39,306	1,491	40,797
At 31 December 2003	<u>43,161</u>	<u>167,909</u>	<u>211,070</u>

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

21 Revenue reserves

	Group £000	Corporation £000
At 1 January 2003	14,725	3,353
Net revenue retained for the year	12	(56)
At 31 December 2003	<u>14,737</u>	<u>3,297</u>

As permitted by section 230 of the Companies Act 1985, the Corporation has not presented its own revenue account. The revenue return, including profit on ordinary activities, after taxation for the Corporation amounted to £8,005,000 (2002: £ 8,069,000).

Notes to the accounts *continued*

22 Financial instruments

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

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

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

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

- **market price risk**, arising from uncertainty in the future value of financial instruments. The board maintains policy guidelines whereby a spread of investments in different 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:

	2003			2002		
	Investments £ millions	Net Monetary Assets £ millions	Total Currency Exposure £ millions	Investments £ millions	Net Monetary Assets £ millions	Total Currency Exposure £ millions
US Dollar	19.3	2.1	21.4	14.9	2.3	17.2
Euro	29.3	–	29.3	27.0	–	27.0
Danish Krone.....	1.7	–	1.7	1.4	–	1.4
Swedish Kroner	1.3	–	1.3	0.9	–	0.9
Swiss Franc.....	5.1	–	5.1	5.7	–	5.7
Hong Kong Dollar	–	0.3	0.3	–	0.3	0.3
	<u>56.7</u>	<u>2.4</u>	<u>59.1</u>	<u>49.9</u>	<u>2.6</u>	<u>52.5</u>

The holdings in the Henderson Japan Capital Growth and Pacific Capital Growth OEICs are denominated in sterling but have underlying assets in foreign currencies equivalent to £28.2 million (2002: £16.7 million).

Notes to the accounts continued

22 Financial instruments continued

- liquidity risk**, arising from any difficulty in realising assets or raising funds to meet commitments associated with any of the above financial instruments. To minimise this risk, the board's policy guidelines only permit investment in equities and fixed interest securities quoted in major financial markets. In addition, cash balances and overdraft facilities are maintained commensurate with likely future settlements. The maturity of the Group's existing borrowings is set out in Note 26. The Group has a multi-currency loan facility of £10 million which was undrawn at 31 December 2003.
- 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 2003 was:

	£ millions		
	Sterling	HK Dollars	US Dollars
Fixed rate assets	–	–	–
Floating rate assets	11.9	0.3	2.1
Fixed rate liabilities.....	39.2*		
Floating rate liabilities.....	–		
Weighted average fixed rate	6.125%		

* fixed for 31 years

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

Fair value

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

Notes to the accounts *continued*

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

	2003 £000	2002 £000
Return, including profit before interest payable and taxation	11,247	10,939
Depreciation charge	270	229
Decrease\.(Increase) in debtors.....	218	(87)
Increase in creditors.....	1,336	518
Transfers from capital reserves	(234)	(146)
UK and overseas withholding tax deducted at source	(163)	(244)
Net cash inflow from operating activities.....	<u>12,674</u>	<u>11,209</u>

24 Analysis of net debt

	31.12.02 £000	Cashflow £000	Amortisation of Costs £000	Currency Exchange £000	31.12.03 £000
Bank balances & short term deposits	9,013	2,328	–	(242)	11,099
Overdrafts.....	(57)	57	–	–	–
Total.....	8,956	2,385	–	(242)	11,099
Debt due after one year.....	(39,150)	–	(27)	–	(39,177)
Current asset investments.....	10,490	(7,323)	–	–	3,167
Net debt.....	<u>(19,704)</u>	<u>(4,938)</u>	<u>(27)</u>	<u>(242)</u>	<u>(24,911)</u>

25 Reconciliation of movement in shareholders' funds

	2003 £000	2002 £000
At 1 January 2003.....	199,568	260,319
Total return after dividend.....	41,717	(61,138)
Proceeds of issue of ordinary shares.....	402	387
Shareholders' funds at 31 December	<u>241,687</u>	<u>199,568</u>

The calculation of net asset value is based upon shareholders' funds of £241,687,000 (2002: £199,568,000) divided by 117,249,585 (2002: 117,021,660) shares in issue at 31 December each year. The fully diluted net asset value is based upon the diluted number of shares in issue of 117,329,156 (2002: 117,081,712) shares, assuming exercise of options at less than fair value.

Notes to the accounts *continued*

26 Borrowings

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

	Group		Corporation	
	2003 £000	2002 £000	2003 £000	2002 £000
Unsecured borrowings falling due within one year:				
Overdrafts.....	–	57	–	–
Borrowings falling due after more than one year:				
Secured				
6.125% guaranteed secured bonds 2034	39,176	39,150	–	–

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

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. In accordance with FRS 4, the finance costs of the borrowing (being the difference between proceeds and the eventual repayment amount) are allocated to future periods of its term at a constant rate on the carrying amount.

27 Contingent liabilities

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

The Group is also from time to time party to legal proceedings and 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.

28 Lease commitments

	2003			2002	
	Land and buildings £000	Other £000	Total £000	Total £000	
Less than one year.....	–	51	51	39	
2 to 5 years.....	–	78	78	170	
More than 5 years.....	1,082	–	1,082	908	
	<u>1,082</u>	<u>129</u>	<u>1,211</u>	<u>1,117</u>	

Notes to the accounts *continued*

29 Pension commitments

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

The pension charge for the year was £1,133,000 (2002: £974,000) which as a percentage of pensionable salary, in accordance with valuations by the actuary, is as follows:

2002.....	25.0%
2003.....	28.8%
From 1 January 2004	28.8%

The major assumptions in the 31 December 2003 disclosure under FRS 17 are shown below and are applied to membership data supplied at that date. This shows the net pension assets and liabilities that would be disclosed if the new accounting standard had been adopted.

	2003	2002
	%	%
RPI inflation	2.4	2.4
Discount rate	5.2	5.6
Pensions increases in payment	2.4	2.4
General salary increases	4.4	4.9

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

	2003		2002	
	Expected Return %	£000	Expected Return %	£000
Equities	7.7	10,351	7.4	8,393
Bonds	5.4	1,499	5.6	1,230
Gilts	4.8	1,345	4.5	1,067
Property	6.3	359	6.0	282
Cash	4.6	89	4.0	5
Pensioner annuities	5.4	966	5.6	684
Total market value of assets		14,609		11,661
Present value of liability		(19,097)		(16,922)
Deficit in the plan		(4,488)		(5,261)
Related deferred tax asset at 30%		1,346		1,578
Net pension liability		<u>(3,142)</u>		<u>(3,683)</u>

Notes to the accounts continued

29 Pension commitments continued

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

	2003 £000	2002 £000
Net assets excluding pension liability	241,687	199,568
Pension liability	<u>(3,142)</u>	<u>(3,683)</u>
Net assets including pension liability	<u>238,545</u>	<u>195,885</u>
Capital reserves excluding pension liability	214,548	172,843
Pension liability	<u>(3,142)</u>	<u>(3,683)</u>
Capital reserves including pension liability	<u>211,406</u>	<u>169,160</u>
Administrative expenses current service cost		
Current service cost	<u>(952)</u>	<u>(958)</u>
Other finance income		
Expected return on pension plan assets	812	961
Interest on pension plan liabilities	<u>(959)</u>	<u>(848)</u>
Net return	<u>(147)</u>	<u>113</u>
Statement of Total Returns Gains & Losses		
Actual return less expected return on pension plan assets	1,592	(2,721)
Experience losses arising on plan liabilities	157	(59)
Changes in assumptions underlying the present value of plan liabilities	<u>(966)</u>	<u>(1,026)</u>
	<u>783</u>	<u>(3,806)</u>
Movement in plan deficit during the year		
Deficit in plan at beginning of the year	(5,261)	(1,444)
Movement in year:		
Current service cost (total)	(952)	(1,008)
Aggregate contributions	1,089	884
Other finance income	(147)	113
Actuarial gain as above	<u>783</u>	<u>(3,806)</u>
Deficit in plan at end of the year	<u>(4,488)</u>	<u>(5,261)</u>
History of experience gains and losses		
Difference between expected and actual return on plan assets:		
Gain/(loss)	1,592	(2,721)
Percentage of scheme assets	11%	(23)%
Experience gains and losses on plan liabilities		
Gain/(loss)	157	(58)
Percentage of the present value of the plan liabilities	1%	-
Total amount that would be recognised in STRGL in future years		
Gain/(loss)	783	(3,806)
Percentage of the present value of plan liabilities	4%	(22)%

Shareholder information

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 the Law Debenture Share Savings Scheme on a monthly basis and who wish to apply the Inland Revenue's optional basis of valuing holdings as if they had all been purchased in July, guidance notes have been prepared by the AITC and are available from the Company Secretary on request.

Company and share information

Information about the Corporation can be found on its internet web site <http://www.lawdeb.co.uk>

The market price of its ordinary shares is published in the Financial Times, The Times, The Daily Telegraph, The Guardian, The Independent, the Daily Mail and the London Evening Standard.

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.

Investment services to shareholders

The Corporation offers a package of services to enable investors to accumulate shareholdings conveniently and economically. Three separate methods of investment are currently available:

- **Individual Savings Account (ISA)**

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

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

- **A monthly share savings plan**

For regular and lump sum savers the monthly savings plan enables investment from as little as £25 a month and has a dividend reinvestment facility. It is administered by Law Debenture Investment Management Limited, which can be contacted at:

The Administrator, The Law Debenture Corporation p.l.c. Share Savings Scheme, Fifth Floor, 100 Wood Street, London EC2V 7EX. Tel: 020 7696 5295

Details are available on our website, <http://www.lawdeb.co.uk>.

- **A postal share dealing service**

Regular dealings for lump sum investments or sales on preferential commission terms through NatWest Stockbrokers Limited. They can be contacted at:

NatWest Stockbrokers Limited, Corporate & Employee Services, FREEPOST, 55 Mansell Street, London E1 8BR. Tel No: 020 7895 5489

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.

Law Debenture Investment Management Limited is authorised and regulated by the FSA.

NatWest Stockbrokers Limited, a member of the Royal Bank of Scotland Group, is a member of the London Stock Exchange and authorised and regulated by the FSA.

Company advisers and information

Registered office

Fifth Floor
100 Wood Street
London EC2V 7EX
Telephone: 020 7606 5451
Fax: 020 7606 0643
(Registered in England - number 30397)

Registrar and transfer office

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

Investment portfolio manager

Henderson Global Investors Limited
3 Finsbury Avenue
London EC2M 2PA

Bankers

The Royal Bank of Scotland Group
Lloyds Bank TSB

Auditors

PKF
Farringdon Place
20 Farringdon Road
London EC1M 3AP

Stockbrokers

Cazenove & Co
12 Tokenhouse Yard
London EC2M 2PA

Global custodians

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



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