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## INVESTMENT MANAGERS AND SECRETARIES

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Scottish Value Management Limited ('SVM') were appointed as Managers and Secretaries to the Company on 15 February 1996. SVM were established in 1990 to provide investment management services to institutional and other clients using value management methods. SVM manages in excess of £600 million in a range of funds and client accounts. In addition to Life Offices Opportunities Trust, these accounts include Scottish Value Trust, Undervalued Assets Trust, Warrants and Value Investment Trust, pension funds, investment linked insurance funds and offshore funds.

*[Handwritten signature]*



## CHAIRMAN'S STATEMENT

Life Offices Opportunities Trust aims to achieve long term capital growth from a diversified portfolio of with-profits life assurance policies which have the potential for achieving enhanced capital returns, particularly through corporate change in the life assurance industry.

I am pleased to report that your Company has continued to make good progress in 1998. Having achieved a fully invested position at the end of 1997, your Company continued to purchase traded endowments using borrowings. While market prices have sometimes been quite high, we have been patient and only purchased when prices have satisfied our investment criteria. Over the year, net asset value per share rose 14.7 per cent to 121.7 pence. The investment objective of your Company is to achieve long-term capital growth and, as such, no dividend is payable.

The portfolio comprises a spread of exposure to endowments, with an emphasis on life offices that we believe can benefit from the restructuring of the life industry. Over the course of 1998, several insurers announced re-organisations – General Accident and Commercial Union merged to form CGU and Guardian Royal Exchange restructured its life funds. Since the year end, NPI has recommended an offer from AMP and Guardian Royal Exchange has agreed a bid by AXA through its Sun Life subsidiary. Of these, only NPI will give direct benefits to policyholders and your Company's exposure to most of these is small. However, the large increases in Guardian Royal Exchange's terminal bonuses at the recent declaration demonstrate that restructuring like this can be very beneficial to policyholders.

The primary source of investment returns is still the underlying assets in which the with-profit policies are invested and, despite the stockmarket volatility, both equities and bonds recorded strong gains in 1998. The current bonus declaration season has again seen various offices reducing reversionary bonus rates, reflecting the perceived lower returns in the future, especially from bonds which have to back this guaranteed portion of endowment maturity values. However, the impact on values for longer running policies has been less and increases in terminal bonuses suggest that payouts will, at worst, decline slowly.



Guarantees on annuity rates have raised potential problems for life offices. While the problem is not crippling for the industry as a whole, there is a chance that some life offices will struggle because of it. Equitable Life's stance of reducing terminal bonuses on policies with guarantees is an approach that appears justifiable, although it may not be agreeable to individual policyholders. However, it suggests that the main impact of rising guarantee costs may be borne by pension policyholders, rather than holders of life policies. Your Company does not have any pension policy investments.

The Company's Annual General Meeting will be held in Edinburgh on 23 March 1999 and the formal resolutions to be considered are detailed in the Notice of Meeting on page 22. In addition to the normal resolutions, three further resolutions are being proposed. Resolutions 4 and 5 authorise the Board to issue further shares up to the limit of the authorised share capital of the Company and disapply the statutory pre-emption rights. Resolution 6 authorises the Board to purchase and cancel up to 15 per cent of the Company's issued share capital. I can reassure shareholders that these powers will be invoked only at levels which enhance the Company's net asset value.

With your Company having increased gearing substantially over 1998, it is likely that future purchases by the Fund will be limited. Allowance in our gearing calculations has been made for the further borrowing that will be required for future premium payments. A degree of flexibility has been retained and we will look to take advantage of any weaknesses in the traded endowment market should they appear. With the portfolio now in place, we believe that your Company is well placed to benefit from future asset growth and restructuring activity.

John Brumwell  
Chairman

22 February 1999

## MANAGERS' REVIEW

Last year was a better year for the Company than 1997. Having purchased policies up to the amount of the original capital of the Company by the end of 1997, purchases were made at a much slower rate. As in previous years, the first few months of the year saw very strong demand and high prices. The majority of the year's purchases were made later in the year, when weakness in the market enabled the Company to purchase policies satisfying the same strict criteria as before.

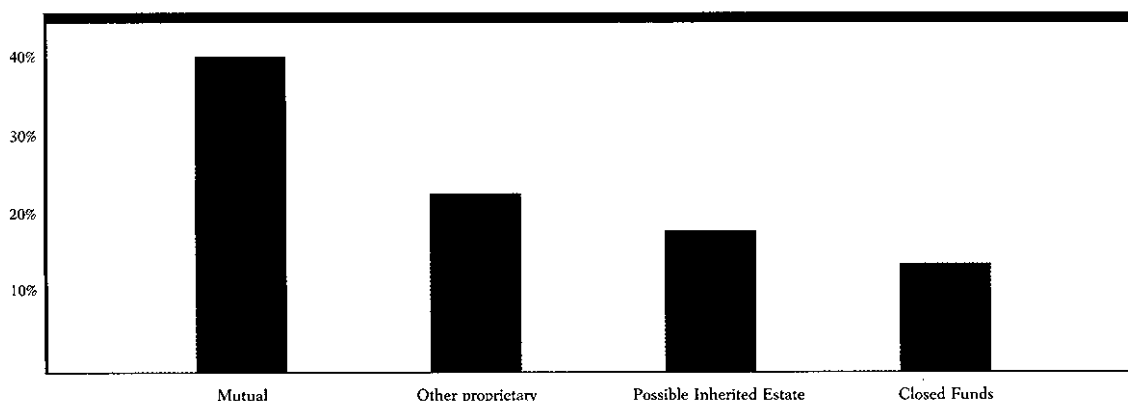
With gilt yields having fallen dramatically over the last couple of years to barely 4%, it seems anomalous for traded endowments to still be available at discount rates of 12% or more. While we would expect policy discount rates to be higher than gilt yields, as there is uncertainty over actual returns, we do not believe differences of this size will continue in the medium term. The Company will continue to purchase further policies if they become available at the right price, but we do not anticipate the overall amounts involved to be large.

Life office restructuring has continued this year, though with less activity than in previous years. The recent auction for NPI followed a similar pattern to that set by Scottish Amicable. It announced in October that it was interested in talks with potential partners. A short list of three was quickly produced and in January the Board, after examining detailed offers, recommended AMP. The structure of the deal is also very similar to Scottish Amicable's takeover – policyholders will receive cash and bonus benefits, and NPI's with-profit fund will be closed, with the surplus distributed to maturing policyholders. In addition to this, AMP will also inject capital (which is not distributable to policyholders) which will allow greater investment freedom. Further benefits may also arise from merging operations with Pearl (which AMP already owns) and achieving greater economies of scale. Although NPI was a targeted life office when the Company was launched, its focus on pension products meant that the number of available policies has been very small.

NPI also made one of the more innovative financial deals of the year, securitising some of its policy cash flows via a bond issue. In retrospect, the wisdom of this move does look questionable as it cannot be seen as anything other than a last throw of the dice to find extra capital, which recent events would suggest was needed by the business. While it is right that mutual offices should be examining their capital position, raising money through bond issues should be treated with care as they are effectively gearing up the with-profits fund. This is unlikely to match the risk profile for which with-profit investors are looking.

Although takeovers and mergers took place last year – Commercial Union and General Accident merged, Friends Provident took over London & Manchester and, more recently, AXA bid for Guardian Royal Exchange through its Sun Life subsidiary, in none of these cases did benefits accrue directly to

### Life Office Exposure



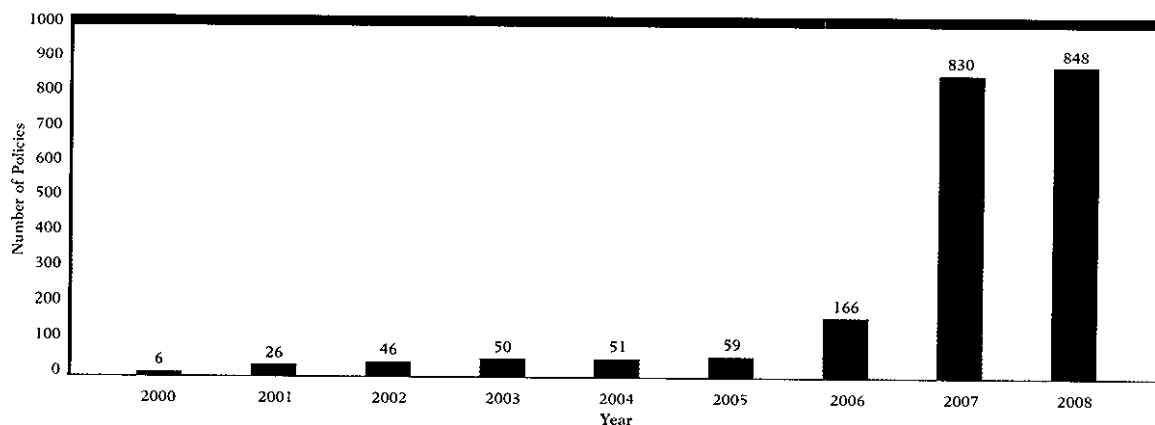
policyholders, although larger and potentially more efficient companies may achieve lower unit costs. Guardian did reorganise its life fund prior to being taken over. Under this reshuffling, PPP Lifetime Care, Guardian's health subsidiary, bought the unit-linked business out of the with-profits fund. As Guardian's with-profits fund has been one of the weaker funds in the market, the cash injection combined with a slightly reduced capital requirement has improved the outlook for the fund. The benefits from this can already be seen from the recent bonus declaration where Guardian significantly improved its terminal bonuses, demonstrating that value can be generated by other means than demutualising.

Banking is the latest venture for several life companies with the two highest profile examples being Prudential, through its Egg offerings, and Standard Life. These provide an interesting contrast. The former is shareholder funded and all the initial costs and eventual benefits will hence be attributable to shareholders. For Standard Life, the financing is inevitably from the with-profits fund. While the initial costs are small relative to the fund as a whole, it has to be asked if this is a suitable strategy for a mutual office. It could be several years before the venture recovers its start-up costs, especially as its rapid growth will probably require additional capital. The long term position of the fund should have already been considered. One of the reasons for Norwich Union demutualising was the presence of a single large and inappropriate asset in its with-profit fund – the non-life insurance business. It is far from clear whether Standard Life with-profit policyholders would like to see a similar position arising in their fund, with the additional risks that would bring. It is perhaps appropriate for the boards of the mutuals involved to make clear their strategies and how these will benefit all with-profit policyholders.

Last year was not a good year for life offices in at least two respects. The first is the ongoing pensions mis-selling problems. With several companies paying fines and making large provisions, the cost of dealing with this problem has been significant. Indirectly other costs have yet to come, as the government proposals for ISAs, LISAs and stakeholder pensions give life offices no inherent advantage and will probably end up favouring other market participants.

Annuity guarantees also received a lot of publicity over the course of the year. The issue arises from guarantees that life offices added to pension policies, primarily in the 1970s and 1980s. With long-term interest rates very high during this period, guarantees based on gilt yields of around 7–8% looked worthless and were thrown in as a marketing gimmick. Now, of course, yields lie well below this level. In addition, mortality has improved at a much faster rate than people expected and effectively increased the yield required by 1–2%. The only comprehensive market information available is in a survey done by an actuarial working party in 1997. This would suggest that while the problem is large in numerical numbers – one

Number of Policies by Maturity Year



## MANAGERS' REVIEW

stockbroker estimates that the cost of an option to cover the problem would be around £5-6bn – for the industry as a whole, it should be manageable. However, individual offices may have more severe problems. Most of the quoted offices have stated that the problem is manageable. For example, Norwich Union has stated that guarantees are one of the reasons for the high gilt content of their with-profits fund. However, the position of other life companies is less clear.

So far, Equitable Life has taken the strongest position publicly on the problem by reducing terminal bonuses only on policies which have guarantees. This stance has produced strong protests from policyholders, who feel that Equitable Life has broken the guarantee. While legal proceedings are under way, the rulings that have been made so far would seem to allow Equitable Life's decision. If this is the case then the implications for the industry as a whole are not clear. Equitable Life has a distinct philosophy that is used to manage its with-profits fund. In particular it has a low free asset ratio which limits its room for manoeuvre. Whether other offices would feel they should, or even want to, make such adjustments is an open question. From the Company's point of view it is obviously preferable that the cost of the guarantees is met by pension policyholders, rather than the with-profits fund as a whole. While Equitable Life's position makes this more likely, each office will no doubt consider its position carefully before it decides on its treatment of guarantees.

There has been much debate about the issues of projections and valuations for traded endowment funds. Since the prospectus was published, we have not made any projections of termination values for the Company. Part of the attraction of the traded endowment market for the professional investor is its lack of efficiency. Policies are priced almost entirely by term, making little or no allowance for the different life offices' bonus prospects. Using additional information, such as asset share estimates, should allow a professional investor to add value. We feel that to provide projected termination values for the Company on a basis that we believe is flawed would be more likely to mislead than inform.

For valuations purposes, the Company has to produce an estimated market value for the fund on a regular basis. Inevitably, this has to be based on the methodology of the traded endowment market. This year a Policy Discount Rate of 11.75% was used for policies maturing before and 12.5% was used for policies maturing after June 2006. It is hoped that disclosing this will aid clarity for investors and make comparisons between funds easier.

The recent bonus declarations have followed the pattern of recent years with most life offices reducing reversionary bonuses and increasing terminal bonuses. As the guarantee that reversionary bonuses provide has to be backed either by gilts or free assets, this process is inevitable. However, overall returns to policyholders have only fallen slightly. With recent high equity returns, balancing out lower gilt yields, we expect current policy returns to be more sustainable than is generally accepted. With the policies that the Company now owns, we expect that this will be reflected in good long-term capital growth, boosted by the release of value due to corporate changes in the life industry over the next few years.

# INVESTMENT PORTFOLIO

As at 31 December 1998

Life Office	Number of Policies	Cost £000	Valuation £000	% of Total Assets
1 Standard Life	506	5,651	7,004	25.9
2 Norwich Union	341	4,380	5,198	19.2
3 Legal & General	204	3,280	3,867	14.3
4 Scottish Provident	207	2,519	2,785	10.3
5 Scottish Amicable	186	1,903	2,461	9.1
6 Century	8	1,664	1,950	7.2
7 Prudential	137	1,450	1,815	6.7
8 Scottish Life Assurance	109	1,236	1,439	5.3
9 Clerical Medical	56	1,191	1,424	5.3
10 Friends Provident	82	1,210	1,404	5.3
<b>Ten largest exposures</b>	<b>1,836</b>	<b>24,484</b>	<b>29,347</b>	<b>108.6</b>
11 Pearl Assurance	49	494	606	2.3
12 AXA Equity & Law	27	365	481	1.8
13 Sun Life of Canada	25	342	469	1.7
14 Friends Provident (UKPI)	20	287	360	1.3
15 Scottish Widows	20	286	320	1.2
16 Co-operative Insurance	19	201	262	1.0
17 Royal London Mutual	15	182	261	1.0
18 Sun Life Assurance	15	198	255	0.9
19 Windsor Life (Gresham)	16	157	225	0.8
20 Royal & Sun Alliance	12	135	187	0.7
<b>Twenty largest exposures</b>	<b>2,054</b>	<b>27,131</b>	<b>32,773</b>	<b>121.3</b>
<b>Other exposures</b>	<b>28</b>	<b>367</b>	<b>465</b>	<b>1.7</b>
<b>Total investments</b>	<b>2,082</b>	<b>27,498</b>	<b>33,238</b>	<b>123.0</b>
<b>Contingent liabilities</b>	<b>(27)</b>	<b>(310)</b>	<b>(310)</b>	<b>(1.1)</b>
	<b>2,055</b>	<b>27,188</b>	<b>32,928</b>	<b>121.9</b>
<b>Net current liabilities</b>			<b>(5,906)</b>	<b>(21.9)</b>
			<b>27,022</b>	<b>100.0</b>

The amounts included in the "Total investments" section above represent the policies purchased as at 31 December 1998 together with policies on which irrevocable offers have been made. As it is the policy of the Company to recognise as assets only policies in the former category, amounts payable in the latter category are regarded as contingent liabilities and excluded in arriving at the Company's net assets.

## SHAREHOLDER INFORMATION

Financial Calendar	
1999	
February	Annual results announced
March	Annual General Meeting
August	Half year results announced
2000	
February	Annual results announced
March	Annual General Meeting

### Annual General Meeting

The Annual General Meeting of Life Offices Opportunities Trust plc will be held at The Caledonian Hotel, Edinburgh on 23 March 1999 at 12 noon in order to receive the Report and Accounts and pass the resolutions as set out in the Notice calling the Meeting on page 22.

### Duration of the Company

Under the Articles of Association, the Company is due to be put into voluntary liquidation between March and December 2008.

### Investment Trust Savings Scheme

The Managers operate a low cost Savings Scheme which allows investment to be made in shares of the Company at the rate of £25 or more per month, or by a lump sum investment subject to a minimum of £250. No commission is charged and the only cost involved on each purchase is Stamp Duty, currently levied at 0.5%. All funds received up to and including each Friday will be invested in the following week. Details of the Savings Scheme are available from the Managers.

### Crest

The Company's shares can now be held through the CREST system. Crest is a computerised system for settling purchases and sales of shares. Crest, which is voluntary, enables everyone to hold shares in electronic form as a computer record rather than in paper form. If you would like more information on Crest, please write to CRESTCo Limited, Trinity Tower, 9 Thomas More Street, London E1 9YN.

#### Registrars

Computershare Services plc  
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8 Bankhead Crossway North  
Edinburgh EH11 4BR  
Telephone: +44 (0)131-523 6666

#### Auditors

Ernst & Young  
Ten George Street  
Edinburgh EH2 2DZ

#### Bankers

The Royal Bank of Scotland plc  
RBS Trust Bank Limited

#### Policy Advisors

Beale Dobie & Company Limited

#### Stockbrokers

HSBC Securities

#### Registered Number

162841



## BOARD OF DIRECTORS



*left to right: John Wilson, Raymond Paul, John Brumwell and John Motion*

John Brumwell (Chairman) (aged 64)

John Brumwell retired in 1995 as a fund manager and company secretary of Prudential Portfolio Managers Limited. He is a Fellow of the Institute of Actuaries and is currently a consultant with FTSE International Limited and serves on the Advisory Council, the Membership and Statistics Committees of the Association of Investment Trust Companies.

John Motion (aged 63)

John Motion worked for over 25 years as a stockbroker and retired from Merrill Lynch in 1995. He specialised in the investment trust sector, joining Kitcat & Aitken in 1969 and was joint head of investment trusts there for 15 years. In 1986 he became director of investment trusts at Kitcat & Aitken Limited. He has been a member of the London Stock Exchange for over 20 years.

Raymond Paul (aged 56)

Raymond Paul is a Fellow of the Faculty of Actuaries. He has spent over 35 years in the life assurance industry and was formerly Appointed Actuary at the Life Association of Scotland Limited. He is an independent consulting actuary and is the author of a paper on the subject of merging and reconstructing life funds.

John Wilson (aged 56)

John Wilson joined James Capel in 1960 and retired in 1995. He was a partner of James Capel & Co. for eight years until James Capel became part of the HSBC Group in 1986. He worked in a variety of roles at James Capel and is a trustee of James Capel's in-house pension schemes. He has been a member of the London Stock Exchange for over 25 years.

## REPORT OF THE DIRECTORS

The Directors submit their Report and Financial Statements for the year to 31 December 1998.

### Principal activity and status

The Company is an Investment Company as defined in Section 266 of the Companies Act 1985. The Company has been approved by the Inland Revenue as an investment trust under Section 842 of The Income and Corporation Taxes Act 1988 for the period to 31 December 1997. It will continue to conduct its affairs so as to enable it to seek such approval in the future. A review of the business during the year is set out on pages 4 to 6.

### Results

The revenue transferred from revenue reserve was £87,000. No dividend has been declared.

### Directors

The Directors who held office during the year and their beneficial interests in the Ordinary Shares of the Company were:

	31 December 1998	31 December 1997
J C H Brumwell	10,000	5,000
J S H H Motion	15,000	10,000
R M Paul	4,000	4,000
J B Wilson	7,500	7,500

There have been no changes in the Directors' interests between 31 December 1998 and 22 February 1999.

No Director has a service contract with the Company.

Mr J S H H Motion retires by rotation and, being eligible, offers himself for re-election at the Annual General Meeting.

### Substantial shareholdings

At 22 February 1999, the following interests in excess of 3% of the issued Ordinary Shares of the Company had been reported:

Name	Number of Shares	Percentage of Issued Shares
Investec Holdings (UK) Limited	3,847,070	17.3%
Railways Pension Trustee Company	2,500,000	11.3%
Exeter Zero Preference Fund	1,100,000	5.0%
Geared Income Investment Trust plc	1,100,000	5.0%
Guardian Royal Exchange plc	750,000	3.4%

### Management

Scottish Value Management Limited provides investment management and secretarial services to the Company. These services can be terminated by either party at any time by giving one year's notice of termination. Scottish Value Management Limited receives a fee, payable quarterly in arrears, equivalent to 0.75% per annum of the total assets of the Company less current liabilities.

### Investment Management and Policy Advisory Fees

With effect from 1 January 1998, the investment management and policy advisory fees have been allocated 100% to capital. The allocation is in line with the Board's expected long-term return from the investment portfolio. The Board believe that this basis of allocation will enable the financial statements to present a fairer view of the Company's results in terms both of capital and of revenue.

### Auditors

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

#### Directors' Responsibilities

The Directors are required by law to prepare financial statements each year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the revenue of the Company for that year. These financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards. In preparing these statements, the Directors are required to: (a) select suitable accounting policies and then apply them consistently; (b) make judgements and estimates that are reasonable and prudent; and (c) state whether applicable accounting standards have been followed. The Directors confirm that the financial statements comply with the above requirements.

The Directors are also responsible for the maintenance of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### Corporate Governance

Following the publication of the Hampel Report in January 1998, the Committee on Corporate Governance produced a draft set of principles and code of good corporate governance practice (the Combined Code), embracing Cadbury, Greenbury and Hampel. This was passed to the London Stock Exchange which, following a period of consultation, made a number of changes to the Combined Code and appended the current version to the Listing Rules. Although the Combined Code does not form part of the Listing Rules, companies are expected to report on how and to what extent they apply the principles of the Code. It is then up to the shareholders of a company to evaluate this part of the company's statement.

The Directors are pleased to report that the Company has complied with the applicable provisions of the Combined Code throughout the financial year. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis of preparing the financial statements. It should be remembered that an Extraordinary General Meeting will be convened in the year 2008 in order to give shareholders the opportunity to put the Company into voluntary liquidation.

The Directors confirm that the Company has complied with the requirement to be headed by an effective Board to lead and control the Company. The Company is an investment trust and not a trading company and there is no requirement for a Chief Executive Officer. As detailed on page 9, the Board comprises the four independent non-executive Directors, all of whom are independent of the Managers and are free from all business or other relationships that could materially interfere with the exercise of their independent judgement. All of the Directors must submit themselves for re-election by the shareholders every three years and are not entitled to compensation if they are not re-elected to office.

It is the Company's policy that the remuneration of the Directors should be set at a reasonable level to ensure that it is sufficient to attract and retain non-executives who can bring considerable knowledge and experience to the Company whilst retaining strong independent judgement. The current level of remuneration of the Directors is set out on page 19. No Director is involved in deciding his own remuneration.

The Company has always had a policy of regularly keeping in contact with its institutional shareholders and maintaining good relations with them. In addition, the Board uses the Annual General Meeting as a means to improve communications with shareholders.

#### Internal Financial Control and Financial Reporting

The Board is responsible for establishing and maintaining the Company's system of internal financial control. Internal control systems are designed to meet the particular needs of the company concerned and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss.

## REPORT OF THE DIRECTORS

The Board meets every quarter to review the overall business of the Company and to consider the matters specifically reserved for it to decide upon. At these meetings, the Directors monitor the investment performance of the Company in relation to comparable investment trusts. The Directors also review the Company's activities over the preceding quarter to ensure it adheres to its investment policy or, if it is considered appropriate, to authorise any change to that policy. The Board is satisfied that it is supplied in a timely manner with information supplied to it to enable it to discharge its duties.

The Board has adopted a schedule of matters specifically reserved to itself for decision and, in relation to certain matters, two committees have been established. The Management Committee, which comprise all of the independent Directors and a quorum is any two of the independent Directors, meets at least once a year. Its remit includes such matters as reviewing all contracts for services delivered to the Company (e.g. by the Auditors and the Managers), reviewing and recommending new appointments to the Board and fixing the remuneration of the Directors. The Audit Committee, which comprise all of the independent Directors and a quorum is any two of the independent Directors, meets at least once a year. Its remit is to review the Company's financial position and internal financial controls. The Committee must also satisfy itself that the Company's published financial statements represent a true and fair view of the position. The Company's Auditors are invited to attend such meetings and report on the position.

The Board has engaged external firms to undertake the investment management, secretarial and custodial activities of the Company. There are clearly documented contractual arrangements between the Company and these organisations which define the areas where the Board has delegated authority to them. The Board receives reports on at least an annual basis detailing the internal control objectives and procedures adopted by each organisation. Each report has been reviewed by the respective organisation's auditors. The Board's examination of these reports allows it to assess the effectiveness of the internal systems of financial control which affect the Company.

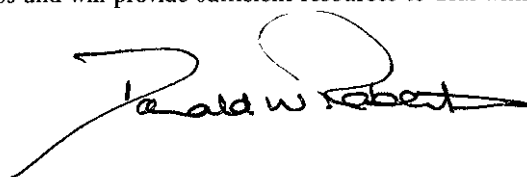
Therefore, the Board confirms that it has reviewed the effectiveness of the Company's system of internal financial controls as it operated during the year. The Board awaits further guidance before commenting formally on non-financial internal controls.

### Year 2000

The Board has addressed with the Managers and the Company's other advisors the issues involved with the problems associated with the Year 2000. Given the complexities involved, it is not possible for any organisation to guarantee that no problems exist. However, the Board believes that the Managers have achieved an acceptable state of readiness and will provide sufficient resources to deal with any issues that might exist.

By Order of the Board,

Scottish Value Management Limited  
Secretaries  
Edinburgh



22 February 1999

## REPORT OF THE AUDITORS TO THE MEMBERS

Report of the Auditors to the Members of Life Offices Opportunities Trust plc

We have audited the financial statements on pages 14 to 21 which have been prepared under the historical cost convention, modified to include the revaluation of fixed asset investments, and on the basis of the accounting policies set out on page 18.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report including, as described on page 11, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding Director's remuneration and transactions with the Company is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 11 and 12 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange and we report if it does not. We are not required to form an opinion on the effectiveness of either the Company's corporate governance procedures or its internal controls.

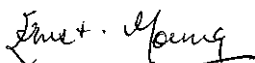
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amount and disclosures in the financial statements. 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 Company'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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company as at 31 December 1998 and of its net deficit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young  
Registered Auditors  
Edinburgh

22 February 1999

# STATEMENT OF TOTAL RETURN

For the year to 31 December 1998

	Notes	Revenue £000	Capital £000	Total £000
Loss on sale of investments	10	—	(20)	(20)
Movement in unrealised appreciation on investments	10	—	4,144	4,144
		—	4,124	4,124
Income	1	11	—	11
Investment management fees		—	(229)	(229)
Other expenses	2	(96)	(152)	(248)
Return before interest and taxation		(85)	3,743	3,658
Bank overdraft interest		—	(198)	(198)
Return on ordinary activities before taxation		(85)	3,545	3,460
Taxation	3	(2)	—	(2)
Transfer to reserves	10	(87)	3,545	3,458
Return per ordinary share	4	(0.39p)	15.97p	15.58p

The Revenue column of this statement is the profit and loss account of the Company.

The Accounting Policies and the Notes on pages 18 to 21 form part of these Financial Statements

# STATEMENT OF TOTAL RETURN

For the year to 31 December 1997

	Notes	Revenue £000	Capital £000	Total £000
Gain on sale of investments		—	355	355
Movement in unrealised appreciation on investments		—	790	790
		—	1,145	1,145
Income	1	475	—	475
Investment management fees		(204)	—	(204)
Other expenses	2	(224)	—	(224)
<b>Return before interest and taxation</b>		47	—	1,192
Bank overdraft interest		—	—	—
<b>Return on ordinary activities before taxation</b>		47	1,145	1,192
Taxation	3	—	—	—
<b>Transfer to reserves</b>	4	47	1,145	1,192
<b>Return per Ordinary Share</b>	4	0.21p	5.16p	5.37p

The Revenue column of this statement is the profit and loss account of the Company.

The Accounting Policies and the Notes on pages 18 to 21 form part of these Financial Statements

# BALANCE SHEET

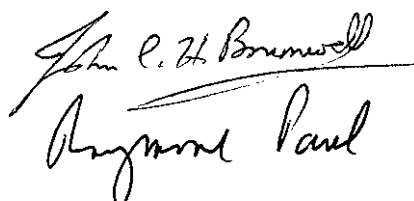
As at 31 December 1998

	Notes	1998 £000	1997 £000
<b>Fixed Assets</b>			
Investments	5	32,928	23,140
<b>Current Assets/(Liabilities)</b>			
Debtors	6	82	62
Cash at bank and on deposit		—	563
Total current assets		82	625
Creditors: amounts falling due within one year	7	(5,988)	(201)
Net current (liabilities)/assets		(5,906)	424
Total assets less current liabilities		27,022	23,564
<b>Capital and Reserves</b>			
Share capital	9	16,652	16,652
Share premium account		4,883	4,883
Capital reserve – realised	10	(244)	355
Capital reserve – unrealised	10	5,740	1,596
Revenue reserve	10	(9)	78
		27,022	23,564
<b>Net asset value per Ordinary Share</b>	4	121.71p	106.13p

John C H Brumwell Director

Raymond M Paul Director

22 February 1999



The Accounting Policies and the Notes on pages 18 to 21 form part of these Financial Statements



## CASH FLOW STATEMENT

For the year to 31 December 1998

	1998 £000	1997 £000
<b>Reconciliation of revenue before interest and taxation to net operating cash flows</b>		
Revenue before interest and taxation	(85)	47
Investment management fees charged to capital	(229)	—
Policy advisory fees charged to capital	(152)	—
Amortisation adjustment on fixed interest investments	—	(84)
Movement in debtors	(1)	77
Movement in creditors	266	5
Tax on franked investment income	(2)	—
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(203)</b>	<b>45</b>

## CASH FLOW STATEMENT

<b>Net cash (outflow)/inflow from operating activities</b>	<b>(203)</b>	<b>45</b>
<b>Returns on investment and servicing of finance</b>		
Interest paid	(198)	—
<b>Taxation</b>		
Taxation received/(paid)	62	(39)
<b>Capital expenditure and financial investment</b>		
Purchases of fixed asset investments	(5,867)	(43,510)
Sales of fixed asset investments	33	44,015
	<b>(5,834)</b>	<b>505</b>
<b>(Decrease)/increase in cash</b>	<b>(6,173)</b>	<b>511</b>
<b>Reconciliation of net cash flow to movements in net (debt)/cash (Note 12)</b>		
Movement in cash in the year	(6,173)	511
Net cash as at 1 January	563	52
<b>Net (debt)/cash as at 31 December</b>	<b>(5,610)</b>	<b>563</b>

The Accounting Policies and the Notes on pages 18 to 21 form part of these Financial Statements

## ACCOUNTING POLICIES

### Basis of Preparation

The financial statements are prepared under the historical cost convention, modified to include the revaluation of fixed asset investments. The financial statements are prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies" ("SORP").

### Income

Income together with imputed tax credits where applicable is included in the Statement of Total Return on an accruals basis. The return on the fixed interest investments is recognised on a time apportionment basis so as to reflect the effective yield on the fixed interest investments. Deposit interest is included on an accruals basis.

### Expenses and Interest

Expenses and interest payable are dealt with on an accruals basis.

### Investment Management and Policy Advisory Fees

The investment management and policy advisory fees have been allocated 100% to capital. The allocation is in line with the Board's expected long-term return from the investment portfolio.

### Finance Costs

Bank overdraft interest has been allocated 100% to capital. The allocation is in line with the Board's expected long-term return from the investment portfolio.

### Fixed Assets – Investments

Endowment policies are recognised as assets only when contract notes in respect of their purchase are issued. Endowment policies have been valued using a method which projects an estimated maturity value for each policy by reference to prevailing bonus rates of endowment policies. Using standard actuarial formulae, an appropriate internal rate of return is then applied to the projected maturity value and future premium liabilities to give the present value of the policies. No allowances for mortality have been made. Premiums are accounted for on a paid basis and are treated as an increase to the cost of investments.

### Capital Reserve – Realised

Gains and losses on realisations of fixed asset investments are dealt with in this reserve. The investment management fees, policy advisory fees and finance costs, together with any tax relief, are also taken to this reserve.

### Capital Reserve – Unrealised

Increases and decreases in the valuation of fixed asset investments are dealt with in this reserve.

## NOTES TO THE ACCOUNTS

	1998 £000	1997 £000
1. Income		
Income from shares and securities –		
franked investment income	8	–
unfranked income	–	429
Interest on short-term deposits	3	46
	<u>11</u>	<u>475</u>
2. Other Expenses		
Revenue		
Policy advisory fees	–	136
Other expenses	53	43
Directors' fees	30	27
Auditors' remuneration – audit services	13	13
	<u>96</u>	<u>224</u>
Capital		
Policy advisory fees	152	–
	<u>248</u>	<u>224</u>
The emoluments of the Chairman, the highest paid Director, were £9,750 (1997 – £9,000).		
The emoluments of the other Directors were £6,750 each (1997 – £6,000).		
3. Taxation		
Tax on franked investment income	<u>2</u>	<u>–</u>

#### 4. Returns per Share

Returns per share is based on a weighted average of 22,202,000 (1997 – same) ordinary shares in issue during the year. Capital return per share is based on capital gains during the period. Revenue return per share is based on the revenue after taxation for the year.

The net asset values per share are based on the number of shares in issue as shown in Note 9.

## NOTES TO THE ACCOUNTS

	1998 £000	1997 £000
5. Fixed Assets – Investments		
Valuation as at 1 January	23,140	22,455
Unrealised appreciation as at 1 January	1,596	806
Cost as at 1 January	21,544	21,649
Additions at cost	5,778	43,471
Disposals at cost	(134)	(43,660)
Amortisation adjustment on fixed interest investments	–	84
Cost as at 31 December	27,188	21,544
Unrealised appreciation as at 31 December	5,740	1,596
Valuation as at 31 December	32,928	23,140
6. Debtors		
Due from brokers	81	–
Taxation recoverable within one year	–	62
Other debtors	1	–
	82	62
7. Creditors: amounts falling due within one year		
Bank overdraft	5,610	–
Due to brokers	–	89
Other creditors	378	112
	5,988	201

### 8. Contingent Liabilities and Commitments

As at 31 December 1998 there were contingent liabilities of £253,000 in respect of endowment policies.

Future premiums payable in respect of endowment policies held at 31 December 1998 were as follows:

	1998 £000
Due within one year	1,502
Due after more than one year	11,603
	13,105

1998  
£000

9. Share Capital	
Authorised	
25,000,000 Ordinary Shares of 75p	18,750
Allotted, issued and fully paid	
22,202,000 Ordinary Shares of 75p	16,652

	Capital Reserve Realised £000	Capital Reserve Unrealised £000	Revenue Reserve £000
10. Reserves			
As at 1 January 1998	355	1,596	78
Loss on sale of investments	(20)	—	—
Expenses charged to capital	(579)	—	—
Movement in unrealised appreciation on investments	—	4,144	—
Transfer from revenue account	—	—	(87)
As at 31 December 1998	(244)	5,740	(9)

1998  
£000

1997  
£000

11. Reconciliation of Movement in Shareholders' Funds		
Revenue attributable to shareholders	(87)	47
Other recognised gains and losses for the period	3,545	1,145
	3,458	1,192
Opening shareholders' funds	23,564	22,372
Closing shareholders' funds	27,022	23,564

Shareholders' funds are wholly attributable to equity shareholders.

	As at 1 January 1998 £000	Cash Flows £000	As at 31 December 1998 £000
12. Analysis of Changes in Net Cash/(Debt)			
Cash at bank and on deposit	563	(563)	—
Bank overdraft	—	(5,610)	(5,610)
	563	(6,173)	(5,610)

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that an Annual General Meeting of Life Offices Opportunities Trust plc will be held at The Caledonian Hotel, Edinburgh on 23 March 1999 at 12 noon for the following purposes:

### Ordinary Resolutions

1. To receive the financial statements for the year to 31 December 1998 together with the Directors' and Auditors' Reports thereon.
2. To re-appoint Mr J S H H Motion, who retires by rotation, as a Director.
3. To re-appoint Ernst & Young as auditors and to authorise the Directors to fix their remuneration.
4. To authorise the Directors generally and unconditionally, pursuant to section 80 of the Companies Act 1985 ("the Act"), to allot relevant securities up to an aggregate nominal amount of £2,098,500, such authority to expire on 23 March 2004, unless previously revoked, varied or extended by the Company in general meeting, save that the Company may at any time prior to the expiry of such authority make an offer or enter into an agreement which would or might require relevant securities to be allotted after the expiry of such authority and the Directors may allot relevant securities in pursuance of such an offer or agreement as if such authority had not expired.

### Special Resolutions

5. To empower the Directors pursuant to section 95 of the Act, to allot equity securities for cash, pursuant to the authority under section 80 of the Act conferred on the Directors, as if section 89(1) of the Act did not apply to any such allotment, up to an aggregate nominal amount of £2,098,500, such power to expire on 23 June 2000, unless previously revoked, varied or extended by the Company in general meeting, provided that such power shall be limited to the allotment of equity securities:
  - (i) in connection with an offer of equity securities open for acceptance for a period fixed by the Directors to the holders of ordinary shares in the share capital of the Company on a fixed record date in proportion (as nearly as practicable) to their respective holdings of such ordinary shares (but subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with legal problems under or resulting from the application or apparent application of the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever); and
  - (ii) other than pursuant to sub-paragraph (i) above, up to an aggregate nominal amount of £2,098,500; andsave that the Company may at any time prior to the expiry of such power make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities in pursuance of such an offer or agreement as if such power had not expired.
6. To authorise the Company generally and unconditionally pursuant to section 166 of the Act to make market purchases (within the meaning of section 163 of the Act) on the London Stock Exchange of any of its ordinary shares provided that:
  - (a) the maximum number of shares hereby authorised to be purchased is less than 15% of the issued share capital as at the date of this resolution;
  - (b) the minimum price (exclusive of expenses) which may be paid for a share shall be 75p;
  - (c) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than 5% above the average of the middle market quotation (as derived from the Daily Official List of the London Stock Exchange) for the shares for the five business days immediately preceding the date of purchase; and
  - (d) unless renewed, the authority hereby conferred shall expire at the conclusion of the next general meeting of the Company save that the Company may, prior to such expiry, enter into a contract to purchase shares which will or may be completed or executed wholly or partly after such expiry.

By Order of the Board

Scottish Value Management Limited  
Secretaries

22 February 1999

Only shareholders are entitled to attend and vote at the meeting. Any shareholder may appoint one or more proxies, who need not be shareholders, to attend and vote on a poll instead of him or her. A form of proxy is enclosed.

# Life Offices Opportunities Trust plc

## PROXY

I/We .....  
(Block letters please)

of .....

being a shareholder(s) of Life Offices Opportunities Trust plc, hereby appoint the Chairman of the Meeting,  
or

\* .....

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company, to be held on 23 March 1999 on the following Resolutions to be submitted to the Meeting and at any adjournment thereof.

Please indicate with an 'X' in the appropriate spaces how you wish your votes to be cast.

Unless otherwise instructed, the proxy will vote as he thinks fit or abstain.

### Ordinary Resolutions

	For	Against
1. To receive the financial statements for the year to 31 December 1998.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-appoint Mr J S H H Motion as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-appoint, and to authorise the Directors to fix the remuneration of, the auditors.	<input type="checkbox"/>	<input type="checkbox"/>
4. To authorise the Directors to allot the unissued shares of the Company.	<input type="checkbox"/>	<input type="checkbox"/>

### Special Resolutions

5. To disapply the statutory pre-emption rights.	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorise the Company to purchase its own shares for cancellation.	<input type="checkbox"/>	<input type="checkbox"/>

Signature .....

Dated this ..... day of ..... 1999

### Notes

\*You may, if you wish, in the space provided insert the name(s) of the person(s) of your choice to attend and vote at the Meeting on your behalf.

In the case of a corporation, the proxy must be either under its common seal or under the hand of an officer.

In order to have effect, the proxy must be received by Computershare Services plc, P.O. Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 0XG at least forty-eight hours before the time of the Meeting.

In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the Register will be counted.



BUSINESS REPLY SERVICE  
Licence No. EH 59

1



**Computershare Services plc**  
**PO Box 457**  
**Owen House**  
**8 Bankhead Crossway North**  
**Edinburgh EH11 0XG**

Second Fold

First fold

Third fold and tuck in